BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates	Rulemaking 22-07-005 (Filed July 14, 2022)

OPENING BRIEF OF THE SOLAR ENERGY INDUSTRIES ASSOCIATION ON INCOME-GRADUATED FIXED CHARGES

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SUMMARY OF RECOMMENDATIONS

The Solar Energy Industries Association respectfully requests that the California Public Utilities Commission do the following in its decision adopting an Income Graduated Fixed Charge ("IGFC"):

- Adopt an IGFC that has three tiers.
- Determine that the highest Tier 3 fixed charge should apply to customers who do not qualify for either the California Alternate Rates for Energy ("CARE") or Family Electric +Rate Assistance ("FERA") programs.
- Determine that the Tier 2 fixed charge should be set at an 18% discount to the Tier 3 charge and would apply to customers whose income and household size qualify for FERA+.
    - Make one change to the FERA eligibility requirements for the purposes of the IGFC only which would allow 1-2 person households with incomes from $36,621 to $46,060 to fall in the second IGFC tier.
- Determine that the Tier 1 fixed charge would apply to CARE customers.
    - Because P.U. Code Section 739.1(c)(1) requires that the effective CARE discount not include costs to recover fixed charge discounts, determine that the Tier 1 fixed charge would be set at the prevailing CARE discount (30% to 35%, depending on the IOU) below what the Tier 3 charge would be before adding recovery of the fixed charge discounts to the Tier 3 charge.
    - Because P.U. Code Section 739.9(e)(1) indicates that the new income-graduated structure must result in a lower bill for the average low-income ratepayer in every baseline territory compared to their bill before the fixed charge was implemented, assuming the same usage, determine that minor adjustments should be made to the IGFC to produce such results.
- Determine that only marginal customer access costs should be recovered through the IGFC.
- Determine that the IGFCs for all three tiers should be calculated such that the entire three-tier structure recovers the utility's marginal customer access costs allocated to the residential class.
- Determine that the investor owned utilities electrification rate schedules will maintain the fixed charges currently embedded therein.

- Direct each of the investor owned utilities to file rate design window applications which propose volumetric rates for each of their respective residential rate schedules which are subject to the IGFC.
- Determine that the IGFC should be implemented at the same time for the three major investor owned utilities.
- Determine that IGFCs approved by the Commission in the Track A Decision will not change prior to Commission approval of the second version of IGFC.
- Direct that a working group be convened and a third party contractor/evaluator be hired within 30 days of the Track A decision
- Direct that the working group and third-party contractor/evaluator submit a data collection and reporting plan to the Commission no later than the second quarter of 2024, with the plan covering both the pre- and post-IGFC implementation data collection and reporting.

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Pursuant to the August 22, 2023, *Administrative Law Judge's Ruling,* the Solar Energy Industries Association ("SEIA") submits its Opening Brief in the above captioned proceeding.

I. INTRODUCTION

The legislature has tasked the California Public Utilities Commission ("Commission") with designing an income graduated fixed charge ("IGFC") that complies with a myriad of statutory requirements. The Commission must design the fixed charge to comply with these statutory requirements while also adhering to its recently revised Rate Design Principles, such that the adopted fixed charge does not directly contradict one or more of the principles. Moreover, as the Commission has previously determined, it must consider how to manage the transition to this new residential rate structure.[1] Customer understanding and acceptance are critical components to managing this transition.

The Commission has before it several proposals that would impose high fixed charges on a large portion of the residential customers of the three major investor-owned utilities ("IOUs"). These fixed charges would collect a significant percentage of the IOUs' revenue requirements, allowing the IOUs to implement across the board reductions of volumetric rates in all time-of-

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1 *Administrative Lasw Judge's Ruling on the Implementation Pathways for Income Graduated Fixed Charges*, R. 22-07-005 (June 19, 2023) ("June 19 Ruling"), p. 3.

use ("TOU") periods. The proposals for high fixed charges were presented by the Joint IOUs, The Utility Reform Network/ Natural Resources Defense Council ("TURN /NRDC"), the California Public Advocates Office ("Cal Advocates") and the Sierra Club. These proposals were made absent consideration of the impact of their proposed fixed charges on (1) residential electric demand for energy (kWh) or capacity (peak kW, at either the gross or net load peaks), (2) the potential for significant defection of customers from the California grid, or (3) the adoption of distributed energy resources.[2] By ignoring these consequences these parties were able to plow ahead with proposals that are single-mindedly focused on collecting a significant amount of revenue from the assessment of high fixed charges on all but the lowest income customers and thereby reducing volumetric rates. As illustrated below, what would actually result from the adoption of any of these proposals are (1) significantly increased usage during peak periods, thereby endangering grid reliability, (2) increases in long-term electric system costs; (3) increases in greenhouse gas emissions, and (4) a rate structure which is ineffective in promoting beneficial electrification.

In response to the June 19 Ruling, the Joint IOUs attempted to recognize the Commission's desire to ease customers into a fixed charge rate structure by modifying their proposal to reduce the number of income tiers and thereby eliminate the highest fixed charge.[3] However, the other parties proposing high fixed charges made no such effort.[4] Moreover, even

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[2] Exh SEIA-02, p. 5, lines 8-18, and responses to data requests provided in Attachment RTB-4. The Sierra Club did recognize that high IGFCs "may discourage or penalize installation of environmentally beneficial rooftop solar and environmentally and grid beneficial load-shifting and energy efficiency measures." See also Exhibit SC-01E, p. 19, lines 25-27.

[3] Exh. Joint IOUs-04, pp. 5-7.

[4] Cal Advocates is proposing fixed charges ranging from approximately $37.00 to $43.00 for customers in the highest income bracket. *See* Exhibit Cal Advocates-01-E, p. 3, Table 1; TURN/NRDC propose a fixed charge of $62.00 for customers in the highest income bracket. *See* Exhibit TURN-NRDC-

with the modifications to their original proposal, the Joint IOUs still propose residential fixed charges between $51 and $73 per month for the highest tiers.[5] In other words, all of these parties ignored the fact that the Commission has stated that it intends to take a gradual approach to fixed charge implementation. While the Commission's desire to take things slow is validated by the fact that previous attempts to impose fixed charges have met with significant public objection, these parties, with no basis in the record, are relying on an unsupported hypothesis that the public will readily understand and accept a rate structure with high fixed charges. This assumption does not withstand scrutiny, as this brief will describe in detail.

The Commission is correct that it must proceed with caution. The Commission is required to approve an IGFC no later than July 1, 2024. The implementation of this fixed charge, and the associated modifications to the volumetric rates, must be done in a manner that ensures a degree of rate relief to low income customers but does not harm grid reliability or move the state backwards in achieving its policy goals for clean energy. It also must also ensure widespread customer acceptance in order to prevent a public, judicial, or political backlash against the new structure.

The proposal which SEIA advanced in this proceeding uses the established structures for the California Alternate Rates for Energy ("CARE") and Family Electric Rate Assistance ("FERA") programs to comply with the income-graduation requirements of AB 205. SEIA also uses the long-established rate discounts for customers on these programs as the starting points for the corresponding reductions in the IGFCs assessed on those customers. Both the CARE and FERA programs and the associated percentage discounts to the electric bills of customers that are

01, p. 4 Table 1; Sierra Club proposes fixed charges ranging from $94 to $136 for customers in the highest income bracket. See Exhibit SC-01E, p. 44, Table 9.

5 Exh. Joint-IOUs-04, p. 7, Table 1.

part of these programs are well known to California ratepayers. Adopting IGFCs based on the CARE/FERA structure is the surest way for the Commission to achieve customer understanding and acceptance. Moreover, SEIA's proposal, which limits the new fixed charges to the recovery of marginal customer access costs, should not engender the customer backlash which would result from the imposition of the extraordinarily high fixed charges proposed by the other parties to this proceeding. The fact is that the gradual transition which the Commission desires must be two-fold – readily acceptable tier differentiations and a level of fixed charges for each tier that will not evoke a public outcry.

The specifics of SEIA's proposal are as follows:

- There should be three tiers of income-graduated fixed charges.
- The highest Tier 3 fixed charge should apply to customers who do not qualify for CARE or FERA.
- The Tier 2 fixed charge should be set at an 18% discount to the Tier 3 charge, and would apply to customers whose income and household size qualify for FERA+.[6]
- The Tier 1 fixed charge would apply to CARE low income customers.
    - P.U. Code Section 739.1(c)(1) requires that the effective CARE discount does not include costs to recover fixed charge discounts. As a result, the Tier 1 fixed charge would be set at the prevailing CARE discount (30% to 35%, depending on the IOU) below what the Tier 3 charge would be before adding recovery of the fixed charge discounts to the Tier 3 charge.
    - P.U. Code Section 739.9(e)(1) indicates that the new income-graduated structure must result in a lower bill for the average low income ratepayer in every baseline territory, compared to their bill before the fixed charge was implemented and assuming the same usage. This interpretation requires a further minor adjustment to SEIA's initial proposal – further reductions to the IGFC for CARE customers and corresponding increases to the other IGFC tiers – to produce lower average bills for the average CARE/FERA customer in all baseline territories.[7]
- The IGFCs for all three tiers should be calculated such that the entire three-tier structure

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6 Currently the FERA program only applies to households of 3 or more persons. SEIA proposes that the second FERA tier of income-graduated fixed charges also should apply to 1-2 person households with incomes from $36,621 to $46,060.

7 See Exh. SEIA-02, pp. 7-8 and Table 2.

recovers the utility's marginal customer access costs allocated to the residential class.

The result of SEIA's proposal will be a modest reduction to the volumetric rate, while maintaining the price signals to incent conservation and energy efficiency during the on-peak period. Moreover, SEIA supports the use of the revenue generated by the fixed charge to increase the differentials between on-peak and off-peak rates. As illustrated herein, the use of the fixed charge revenue in this manner provides an incentive for electrification without the negative impacts resulting from the increased on-peak usage that would result from equal, across the board reductions in all volumetric rates in all TOU periods. Accordingly, SEIA supports the Commission ordering the IOUs to file Rate Design Window ("RDW") applications for the purpose of implementing the adopted IGFCs.

II. DESIGNING AN INCOME-GRADUATED FIXED CHARGE FOR DEFAULT RESIDENTIAL RATES IN ACCORDANCE WITH PUBLIC UTILITES CODE SECTION 739.9

Designing an IGFC for default residential rates is a multi-faceted process. The Commission must not only ensure that all the requirements of Public Utilities Code Section 739.9 (including the provisions added by AB 205) are met, but it must do so in a manner that is consistent with its Rate Design Principles.

A. Compliance with Public Utilities Code Section 739.9

The Commission is tasked with approving a fixed charge for residential default rates by July 1, 2024. Regardless of the Commission's decision to implement a "first version of the IGFC,"[8] with the potential to implement later versions, the first version <u>must</u> comply with all the statutory requirements. Earlier in this proceeding the Commission instructed parties to submit briefs on those requirements and their associated meaning based on the rules of statutory

8 June 19 Ruling, p. 3 ("A gradual approach will allow the Commission to gain experience from the first version of IGFCs…").

construction.[9] SEIA will not repeat the arguments that it presented in its brief on statutory construction,[10] but cautions the Commission that it should review *all* the requisite statutory provisions, consistent with legislative intent, in crafting its first version of the IGFC.

Specifically, the Commission must undertake an analysis that considers: (1) whether a proposed charge meets the statutory definition of a fixed charge as set forth in P.U. Code Section 739.9 (a); (2) whether the charge is designed to only recover a "reasonable portion of fixed costs" as required by P.U. Code Section 739.9 (d); and (3) whether the charge is designed in a manner which meets the three criteria enumerated in P.U. Code Sections 739.9 (d) (1) – (3). In addition to these basic requirements, the Commission must address the income-tiered requirements added to the statute by AB 205. These new provisions require that the fixed charge have "no fewer than three income thresholds" such that a "low income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage." SEIA's proposal meets **all** of these statutory requirements.

1. The Fixed Charge Must Comply with the Statutory Definition

The legislature has afforded the Commission the authority to approve a fixed charge which it defines as "[a]ny fixed customer charge, basic service fee, demand differentiated basic service fee, demand charge, or other charge not based on the volume of electricity consumed."[11] The Commission has already had the opportunity to scrutinize this code provision and in doing so determined that P.U. Code Section 739.9 (a) limits the universe of charges that qualify as a fixed charge to those that are not based on usage and apply by virtue of (1) the existence of a

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9 *See Administrative Law Judge's Ruling Requesting Track A Briefs on Statutory Interpretation*, R. 22-07-005 (December 9, 2022).

10 *See Opening Brief of the Solare Energy Industries Association Regarding Statutory Interpretation of AB 205,* R. 22-07-005 (January 21, 2023) ("SEIA Statutory Interpretation Brief").

11 Public Utilities Code Section 739.9(a).

customer account, or (2) the maximum possible demand that could be provided to the customer (not the customer's individual maximum demand).[12] SEIA's proposed fixed charge conforms with this statutory definition, as interpreted by the Commission, because it includes only customer marginal access costs which are not based on usage and are the result of the existence of a customer account. In contrast, as will be discussed in Section II.C, below, the Joint IOUs, as well as parties such as TURN/NRDC and Cal Advocates, have proposed fixed charges which stray far outside the statutory definition.

2. The Fixed Charge Must Only Recover Fixed Costs

While the legislature has sanctioned the Commission's adoption of "new, or expanded existing, fixed charges for the purpose of collecting a reasonable portion of the *fixed costs* of providing electrical service to residential customers," it did not define the term fixed costs. As described in SEIA's Statutory Interpretation Brief, the rules of statutory construction require that the term "fixed cost" be interpreted as a cost that will not change based on the volume of electricity consumed.[13] Moreover, the Commission has previously reached this same conclusion.[14] In this regard, the Commission has stated that "fixed costs should be calculated in a manner that *truly reflects customer-specific costs* and minimizes regressive impacts of this cost collection method."[15] As stated above, SEIA's fixed charge proposal only includes customer specific costs. Given the levels of these costs,[16] it is "reasonable" to collect the entirety of them

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12 See Decision 15-07-001, p. 8.

13 SEIA Statutory Interpretation Brief, pp. 8-9.

14 Decision 15-07-001, p. 190 (defining fixed costs as those that do not change as a result of individual customer usage).

15 *Id*., p. 191 (emphasis added).

16 See Exh. SEIA -01, p. 17, Table 2 showing the marginal customer access charges for each of the three major IOUS.

in a fixed charge. Again, as discussed in Section II.C, below, several parties have proposed certain costs for inclusion in a fixed charge which do not reflect "customer specific costs." As such they are not in compliance with the statutory requirement.

3. The Fixed Charge Must Comply with Criteria Enumerated in P.U. Code Sections 739.9 (d) (1) – (3)

The legislature has given the Commission specific directions in regard to the design of a fixed charge including its impact on certain customer segments as well as the state's clean energy goals. Thus, the Commission must ensure that the adopted charge:

(1) Reasonably reflect an appropriate portion of the different costs of serving small and large customers.

(2) Not unreasonably impair incentives for conservation, energy efficiency, and beneficial electrification and greenhouse gas emissions reduction.

(3) Are set at levels that do not overburden low income customers.[17]

a. The Fixed Charge Must Reasonably Reflect an Appropriate Portion of the Different Costs of Serving Small and Large Customers

SEIA is aware that the Commission has deferred consideration of the statutory requirement that a fixed charge reasonably reflect an appropriate portion of the different costs of serving small and large customer.[18] SEIA agrees that, with respect to most of the fixed charge proposals in this proceeding, the record data is not sufficiently granular to allow implementation of cost-based distinctions based on residential customer size. However, it is unclear whether the statute allows for deferment of the requirement. Indeed, the statute provides that "the commission shall ensure that *any approved charges do all of the following*: (1) Reasonably reflect an appropriate portion of the different costs of serving small and large customers." The

[17] Public Utilities Code 739.9 (d) (1)-(3)

[18] *Administrative Law Judge's Ruling Addressing the Track A Procedural Schedule, Opening Briefs Guidance and Exhibits*, R. 22-07-005 (August 22, 2023) ("Augst 22 Ruling"), p. 7.

legislature did not change or eliminate this requirement when it enacted AB 205 imposing the income-graduated requirement. Thus, it cannot be disregarded merely because it appears to be difficult to implement.

The fact is that SEIA's proposed IGFC "reasonably reflect[s] an appropriate portion of the different costs of serving small and large customers." Specifically, SEIA proposed IGFC is limited strictly to customer access costs. All residential customers require similar facilities and services to access the electric system, and thus, in the absence of more granular data on these facilities, it is reasonable to conclude that customer access costs do not vary substantially between small and large residential customers.[19] Any differentiation between small and large customers with respect to fixed charges designed to recover marginal customer access costs would require the development of more data on these costs than is now available. SEIA would support Commission direction to develop this data in future RDW or GRC Phase 2 cases. Absent this data, under SEIA's proposal, the appropriate portion of the costs to serve large and small customers would be "reasonably reflect[ed]" by assigning the same fixed charge to both large and small customers. SEIA notes that the proposals that would include far more cost categories in a fixed charge have much more severe problems complying with this portion of the statute. As discussed in Section II.C, large customers cause the incurrence of more of these other costs than small customers. Thus, it would be contrary to this part of the statute to allow large customers to pay the same $ per month fixed charge as small customers to cover these costs.

b. The Fixed Charge Must Not Unreasonably Impair Incentives for Conservation, Energy Efficiency, and Beneficial Electrification and Greenhouse Gas Emissions Reduction

The legislature has given the Commission the job of designing a fixed charge which

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[19] Exhibit SEIA-01, p. 35, lines 3-9.

must balance what, at first glance, appear to be conflicting state policy goals - conservation, energy efficiency, beneficial electrification, and reductions in greenhouse gas emissions. In examining this statutory provision, it is worth noting that while the statutory prohibition against unreasonable impacts on electrification and GHG emission reductions was added to the statute as part of the AB 205, the legislature did not disturb the prohibitions against unreasonable impacts on conservation and energy efficiency which were adopted in 2013 with the passage of AB 327. In other words, the legislature maintained their importance and placed them on an equal footing with the more recent policy goals. There is nothing in the legislative history which supports the position of the Joint IOUs that the goals added through AB 205 should be given "greater priority"[20] Moreover, the Joint IOUs rationale for granting "higher priority" to the goals of incenting beneficial electrification and GHG emission reductions is nonsensical. Thus, the Joint IOUs argue that:

> State decarbonization goals are critical to address the climate crisis, whereas the previously listed goals of conservation and energy efficiency are continuing to diminish in importance as California's generation mix is already dominated by non-GHG emitting sources, and State policy requires it to be 100% GHG-free in about 20 years (by 2045).[21]

In short, the IOUs are erroneously arguing that it is no longer important to conserve energy or employ energy efficiency programs, because all energy on the system will be carbon free in 22 years. First, the Joint IOUs are incorrect in their statement that "State policy requires it to be *100% GHG-free* in about 20 years." Rather, the SB 100 goal for 2045 is that California needs to supply 100% clean GHG-free energy for all retail electric sales by that year.[22] Retail

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[20] *Opening Comments of the Joint OIUs in Response to Administrative Law Judge's Ruling on Implementation Pathway for Income-Graduated Fixed Charges*, R. 22-07-005, (July 31, 2023) ("Joint IOU Opening Comments"), p. 15

[21] Exh. Joint IOUs-04, p.13, lines 3-6.

[22] Public Utilities Code § 454.53 (a).

sales at the customer's meter in 2045 will include less than 75% of the electricity expected to be consumed in the state. Second, even if the state rectifies this defect in its carbon reduction goals, the Joint IOUs' argument that conservation and energy efficiency are diminishing in importance ignores the extreme strain on the grid which California has experienced during the summer on-peak periods in the summers of 2020 and 2022. As the Commission is well aware, the California Independent System Operator had to implement rolling blackouts in August 2020 and just barely avoided them on September 6, 2022.[23] Indeed, the 2022 rolling blackouts were only avoided due to a text message from the California Office of Emergency Services calling on all Californians to conserve energy. To argue that conservation and energy efficiency are diminishing in importance is belied by this recent experience.

Rather, what is necessary and what the Commission has already determined is that the four state energy policy goals set forth in AB 205 are readily harmonized when a more targeted approach is taken. Thus, as reasoned by the Commission:

> We recognize the continued importance of conserving energy during high cost and high-GHG emissions hours. However, the Commission's strategies for reducing GHG emissions have shifted from a focus on conserving electricity at all times to reducing usage during certain hours, and electrifying buildings and transportation rather than reducing overall electricity consumption. We also agree that the concept of energy efficiency is limited and does not capture the concept of conserving electricity during peak periods. Accordingly, we will replace the reference to "energy efficiency" with "economically efficient use of energy" to encourage conservation of energy during high-cost periods in addition to energy efficiency.[24]

The focus of rate design must shift from conserving electricity at all times of the day to reducing usage during certain hours, while still electrifying buildings and transportation. In this complex context, it becomes clear that overuse of IGFCs will not achieve the balanced approach

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23 Exh. SEIA-01, p. 8, lines 18-20.

24 Decision 23-04-040, p. 14.

that the statute requires in order to ensure all the statutory goals are not "unreasonably impaired." As will be discussed in detail below, in the context of the rate design principle that rates "should encourage customer behaviors that improve electric system reliability in an economically efficient manner," high fixed charges, with revenue used to reduce volumetric rates in all TOU periods, will "unreasonably impair" the redefined conservation goal (i.e., conservation during peak hours) as they will substantially increase the summer on-peak residential demand to the detriment of grid reliability.

Similarly, the higher usage during the on-peak period resulting from significantly lower volumetric rates will "unreasonably impair" the state's GHG emission reduction goals.[25] The on-peak period is when the least-efficient, most-polluting natural gas-fired power plants are on the margin and will be called on to produce.

The fact is that proposals that advance high fixed charges, with the revenue used to reduce volumetric rates in all TOU periods, unreasonably impair three of the state energy policy goals enumerated in P.U. Code 739.9 (d) (2) – conservation and energy efficiency during the high-demand periods and GHG emission reductions. And while the high fixed charges may not impair, they certainly do not advance "beneficial" electrification that uses clean, abundant off-peak electricity to serve new electric loads.

In contrast, the SEIA proposal offers the necessary balance to advance all four policy goals. The use of fixed charges in residential rates to recover marginal customer access costs, as SEIA recommends, will reduce volumetric rates to a limited degree. This will provide a modest encouragement to electrification, through a small reduction in the cost of incremental electric use, while maintaining the price signals to incent conservation and energy efficiency during the

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25 Exh. SEIA-01, p. 14.

on-peak period. SEIA's support for the idea of using IGFC revenues to reduce off-peak rates will further promote electrification. Moreover, the Commission also should strongly encourage the IOUs to move all customers who adopt electrification measures onto the existing electrification rates that already feature off-peak rates that are as low or lower than the default rates proposed by the proponents of high fixed charges.

c. The Fixed Charge Must be set at Levels that Do Not Overburden Low income Customers

This requirement is ensured by AB 205 which requires that fixed charge rates be established on an income-graduated basis such that a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage. As discussed in Section II.E of this brief, SEIA's proposal complies with this section of AB 205.

4. The Fixed Charge Must Have No Fewer than Three Income Thresholds

As addressed in SEIA's brief on statutory interpretation, the rules of statutory construction dictate that the language "no fewer than three income thresholds" be interpreted to mean a minimum of three fixed charge levels.[26] Based on the statutory language, once a customer makes any income, a fixed charge value will apply. Thus, any income above $0.00 is the first threshold. The second and third thresholds will need to be established by the Commission. In the August 22 Ruling, the Commission stated that it intended to "rely on existing income verification processes used by the Commission for the California Alternate Rates for Energy (CARE) and Family Electric +Rate Assistance Program (FERA) programs." [27] This statement indicates that the Commission also intends to rely on the income qualifications

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26 *See* SEIA Brief on Statutory Interpretation, pp. 4-6.

27 August 22 Ruling, p. 4.

embedded in these programs to comply with the statutory requirement that the IGFC has three income thresholds.[28] Thus the second threshold would be set at the maximum income level to qualify for CARE (i.e., all CARE customers would be in the first tier), with the third threshold being set at the maximum income level to qualify for FERA (i.e., all FERA customers would be in the second tier). All remaining customers would fall into the third tier. SEIA's proposal uses exactly this tier structure.

5. The Fixed Charge Must Ensure that a Low income Ratepayer in Each Baseline Territory Realizes a Lower Average Monthly Bill Without Making Any Changes in Usage

As addressed in the rebuttal testimony of SEIA witness Beach, there is some ambiguity in the IGFC requirement that "that a low income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage.[29] That said, SEIA recognizes that one of the focuses of AB 205 is rate affordability. Given that, SEIA agrees that a reasoned interpretation of the language "a lower average monthly bill" is that, in each baseline territory, an average low income customer's bill after implementation of the IGFC must be lower than their bill before the fixed charge was implemented, again assuming the same usage. Accordingly, SEIA modified the fixed charge proposal made in its direct testimony in order to ensure that its proposed fixed charges to produce will lower bills for the average low income (CARE and FERA) customer in all baseline territories for each IOU.[30]

B. The Fixed Charge Must be Consistent with Rate Design Principles

At the advent of this proceeding, the Commission undertook the important exercise of

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28 See further discussion in Section II. D, below.

29 See Exh. SEIA-02, p.6, lines 12-14 (statutory language could be interpreted as meaning that, in every baseline territory, a customer whose income falls in a lower level will see a lower electric bill than if the customer were in a higher income level, assuming no change in usage)

30 *Id*., p. 7, lines 12 to 21 and Table II.

updating its rate design principles to "align with current state goals while retaining the core tenets."[31] The Commission must use these guiding principles as guard rails against which to assess the fixed charge proposals before it in this proceeding. While the Commission, of necessity, will need to balance the various principles, stressing certain ones over others, a fixed charge proposal that will achieve a result completely inconsistent with a principle should not be adopted.

1. All residential customers (including low income customers and those who receive a medical baseline or discount) should have access to enough electricity to ensure that their essential needs are met at an affordable cost

All the IGFC proposals would effect a reduction in the bills of low income customers without any adjustments in usage. SEIA recognizes that its IGFC proposal has been criticized because it offers a smaller reduction in rates to low income customers than other proposals before the Commission.[32] However, the Commission cannot look at the impact of the fixed charge on low income rates in isolation from other features of AB 205 that will result in new, incremental bill reductions for low income CARE customers, regardless of the level of the IGFC that is adopted.

For example, AB 205 made a change to the calculation of CARE rates, by providing that "[t]he average effective [CARE] discount determined by the commission shall not reflect any charges for which CARE customers are exempted, discounts to fixed charges or other rates paid by non-CARE customers, or bill savings resulting from participation in other programs."[33] The CARE-exempt charges include the costs to fund CARE discounts as well as certain wildfire

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[31] Decision 23-04-040, p. 7.

[32] *See, e.g.,* Exh. Cal Advocates-03, p. 1-4, line 11 to p.1-5, line 9; Exhibit TURN-NRDC-04, p. 14.

[33] *See* P.U. Code Section 739.1(c)(1). Prior to AB 205, the bill for CARE customers was calculated as a 30% to 35% reduction from the standard rate.

costs. The exclusion from the CARE discount of CARE-exempt charges and fixed charge discounts will result in additional savings for CARE customers beyond the 32.5% to 35% bill reductions in place today. Thus, even if no IGFC were adopted, this provision in AB 205 will increase the average CARE bill reduction from 32.5% - 35% to 35% - 39%.[34]

In addition, AB 205 also provides that IGFCs should have the result "that a low income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage."[35] If "lower" means "lower than before the IGFC was adopted," then this provision will require additional rate discounts for CARE customers to ensure that, on average, CARE customers in low-usage baseline territories will receive a lower bill.[36] The Commission should consider these new, incremental bill reductions that AB 205 provides to CARE customers in deciding on the structure for an IGFC and on the overall level of bill reductions for low income customers necessary to comport with the intent of Rate Design Principle 1.

Moreover, the Commission should also examine the long-term impact of fixed charge proposals on the IOUs' revenue requirements. As discussed below in the context of the principle that rates should incent behavior that optimize the use of existing grid infrastructure to reduce long-term electric system costs, proposals for high IGFCs will result in higher rates over time.[37] Fixed charge proposals that will result in further rapid increases in IOU revenue requirements do not ensure that customers "have access to enough electricity to ensure their essential needs at an affordable cost."

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[34] Exh. SEIA-03, p. 2, lines 9-12.

[35] *See* P.U. Code Section 739.9(e)(1).

[36] See the discussion in Exhibit SEIA-02 (Beach) pp. 6-8, showing how this provision of AB 205 impacted SEIA's IGFC proposal.

[37] See Exhibit SEIA-02, p. 12, line 9 to p.13, line 21.

Finally, the Commission should not lose sight of the fact that it has other tools in its toolbox to afford low income customers rate relief without the negative repercussions of high IGFCs, as discussed above. For example, as proposed by Cal Advocates and supported by SEIA, the Commission can reallocate the biannual California Climate Credit,[38] which is funded from revenues from the GHG cap & trade program, so that a higher share of these funds is rebated to low income customers. If the SEIA proposal were enhanced by using approximately 77% of the Climate Credit for additional CARE discounts – i.e., by reducing the CARE fixed charge to zero and raising the CARE discount percentage for volumetric rates – this would achieve the same reductions in CARE customers' monthly bills as the Joint IOU proposal.[39]

Even more important is expanding the low income programs that result in direct participation of low income customers in adopting distributed energy resources ("DERs"), including electrification measures. To advance the state's electrification goals, providing low income customers with financial support to actually invest in DERs is preferable to simply giving them savings from lower bills – savings which customers may not spend on electrification or electricity. For example, the Commission is now considering the robust new community solar program recommended in A. 22-05-022 by the Coalition for Community Solar Access ("CCSA"), pursuant to AB 2316. The CCSA proposal would provide low income customers who are unable to install solar on their own premises – i.e., many of the 45% of Californians who are renters – with access to the power from specific community solar-plus-storage projects and significant guaranteed bill savings.[40]

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38 Exh. Cal Advocates-01E, p. 1-23, line 4 to p.1-24, line 5.

39 *See* Exhibit SEIA-06, pp. 1-2.

40 AB 2316 requires that at least 51% of the power from the community solar projects must serve low-income ratepayers.

2. Rates should be based on marginal costs

The Commission must assess whether any marginal costs which are proposed to be recovered in an IGFC are "fixed costs." As discussed in Section II.C, the only category of marginal costs that are not driven by customer usage ("the volume of electricity consumed") are marginal customer access costs. Marginal customer access costs are caused simply as a function of being a utility customer, without regard to how much power the customer uses. All of the other marginal costs of utility service depend on the volume of electricity that a customer consumes over a certain time period. SEIA's proposal complies with this basic tenet. Those offered by other parties to this proceeding do not.[41]

3. Rates should be based on cost causation

Again, in the context of an IGFC, the principle of cost causation must be applied within the confines of what the Commission is authorized to direct the IOUs to recover through a fixed charge - i.e., only fixed costs. A fixed charge should only recover those costs that are not caused by the customer's use of energy or capacity from the electric system. Again, these costs are limited to the customer-related costs required to hook up to the system and to receive a bill each month.[42] In contrast, energy costs are *caused* by the use of kWh of energy in specified time periods. Demand or capacity-related costs for generation, transmission, or distribution are *caused* by the use of kW of capacity, which is measured generally by the customer's volume of energy use over short time periods of high demand either on the electric system as a whole or on the distribution system from which the customer receives service.[43] SEIA's proposal complies with

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[41] *See* Exh. Joint IOU-03, p. 14, Table II-3 (summary of parties proposed cost categories for inclusion in default IGFC).

[42] Exh. SEIA-01, p. 15, lines 9-13.

[43] *Id*., p. 15, lines 21-26.

this basic principle,[44] while those offered by other parties to this proceeding do not.[45]

4. Rates should encourage economically efficient (i) use of energy, (ii) reduction of greenhouse gas emissions, and (iii) electrification

With respect to the creation of an IGFC, this rate design principal is subsumed within the statutory requirement that the fixed charge, "not unreasonably impair incentives for conservation, energy efficiency, and beneficial electrification and greenhouse gas emissions reduction." As discussed in Section II.A.3. above, high fixed charges with across the board reductions to volumetric rates in all TOU periods achieve results which are directly contrary to the policy goals of the economically efficient (i) use of energy and (2) reduction of greenhouse gas emissions.

5. Rates should encourage customer behaviors that improve electric system reliability in an economically efficient manner

High fixed charges with associated across the board reductions in volumetric rates will not encourage customer behaviors that improve electric system reliability. Indeed, record analysis shows that such will have exactly the opposite result. Large reductions in on-peak electric rates, as proposed by the Joint IOUs and other parties, will significantly increase on-peak electric demand. California can barely meet today's summer demand in the evening net load peak hours.

In their initial proposal, the Joint IOUs proposed to reduce summer on-peak volumetric residential default rates by an average of -26%.[46] The record shows that the result of this significant reduction in volumetric rates will be to increase the summer peak residential demand

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44 *See* Section II.C for a complete discussion of the costs which can be included in a fixed charge.

45 *See* Exh. Joint IOU-03, p. 14, Table II-3 (summary of parties proposed cost categories for inclusion in default IGFC).

46 Exh. Joint IOUs-01, p. 24, Table II-3.

of the IOUs by +3.4% in the short-run and by +13% to +26% in the long-run, assuming a short-run price elasticity of electric demand of -0.13 and a long-run elasticity of -0.5 to - 1.0. [47] Today's residential peak demand for the three IOUs in the net load peak hours is about 17,000 MW, based on the residential load profile data in the E3 Tool being utilized in this proceeding.[48] Thus, the Joint IOUs' initial proposal would result in an increase demand in the net load peak of 575 MW immediately and 2,200 to 4,400 MW over time.[49] SEIA recognizes that the Joint IOUs have modified their proposal to provide for a lower initial fixed charge. This lower initial fixed charge would still result in a reduction of summer on-peak volumetric residential default rates by an average of -21% (down from -26% in their original proposal).[50] While an improvement over their original proposal, the revised proposal will still increase the summer peak residential demand of the IOUs by +2.7% in the short-run (assuming a short-run price elasticity of electric demand of -0.13), with a concomitant immediate increase in the net load peak by 464 MW and 1,800 to 3,600 MW over the long run. Moreover, the Commission should bear in mind that the Joint IOUs view their revised proposal as only a first step towards higher fixed charges.[51] These higher fixed charges would further increase net load peaks. In contrast to the detrimental impact on existing grid infrastructure resulting from the Joint IOUs' proposal, SEIA's proposal would increase short-run demand by just 130 MW and long-run demand by 500 to 1,000 MW.[52]

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[47] Exh. SEIA-02, p. 8, line 31 to p.9, line 3.

[48] *Id.*, p. 9, lines 3-4.

[49] *Id.* p. 9, lines 4-6.

[50] Joint IOUs Opening Comments, p. 9, Table 4.

[51] Exh. Joint IOUs-04, p. 6, lines 19-23 and Table 1.

[52] Exh. SEIA-02, p. 9, lines 6-8.

Moreover, the Commission should be aware that the estimates of the increase in residential demand resulting from the Joint IOUs' proposal may be understated given that electrifying transportation is a central goal of the state's clean energy efforts. EVs represent a major new end use of electricity that has only become widely available in recent years and thus EV adoption is unlikely to be reflected in estimates of long-term price elasticities derived from data on historical electric demand. An EV can add significantly to a residential customer's annual electric use and the customer's maximum demand. The additional uptake of EVs resulting from lower volumetric rates may increase electric demand for EV charging more quickly than expected, above the forecasts for light-duty EV charging now used for the state's Integrated Resource Plan ("IRP").[53] Indeed, the Joint IOU's own testimony cites a study which finds that demand for EVs increases by 2% for each $0.01 per kWh reduction in electric rates.[54] This further increase in demand during all hours (including the peak period) will further endanger system reliability.

6. Rates should encourage customer behaviors that optimize the use of existing grid infrastructure to reduce long-term electric system costs

The proposals for high IGFCs will result in higher rates over time. As discussed above, such proposals will result in significantly higher peak demands. Peak demand is the key driver of the costs for generation, transmission, and distribution infrastructure.[55] This is shown clearly by the hourly profile of long-run marginal costs set forth in Exhibit SEIA-02, Figure 4 which illustrates that the summer peak period contains the vast majority (if not all) of these costs. Based on the long-run marginal costs for generation, transmission, and distribution capacity used in the

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53 *Id.,* p. 9 lines 18-21.

54 See Exh. Joint IOUs -01, p.13, lines 12-14.

55 Exh. SEIA-02, p. 12, line 22 to p.13, line 2.

ACC and shown in Figure 4, the Joint IOUs' proposal will result significantly higher annual revenue requirements compared to the SEIA proposal, with the difference growing from $195 million per year (initially) to $1.1 billion per year (in the long run).[56] The IOUs' revised proposal will decrease these impacts, but only by approximately 20%. High IGFCs will not encourage customer behaviors that optimize the use of the grid and will increase long-term electric system costs in direct contravention of this rate design principle.

7. Customers should be able to understand their rates and rate incentives and should have options to manage their bills

In the August 22 Ruling, the Commission stated that the first version of the IGFC will "rely on existing income verification processes used by the Commission for the California Alternate Rates for Energy (CARE) and Family Electric Rate Assistance Program (FERA) programs."[57] As noted above, this indicates that the Commission will rely on the income qualifications embedded in these programs to comply with the statutory requirement that the fixed charge be "established on an income-graduated basis with no fewer than three income thresholds."[58] SEIA strongly supports such an outcome. Customer understanding of an IGFC will be enhanced if the Commission adopts an IGFC that relies on the current CARE/ FERA tier structure already embedded in rates and familiar to customers.

The SEIA proposal uses the established CARE and FERA programs to comply with the income-graduation requirements of AB 205 and uses the long-established rate discounts for customers on these programs as the corresponding reduction for the IGFCs assessed on those

56 *Id.*, p. 13, lines 2-8. This assumes that, in the long run, demand would be 450 MW to 2,500 MW higher under the IOU IGFC proposal than the SEIA proposal. The average of the marginal costs for generation, transmission, and distribution capacity used in the 2022 ACC for the three IOUs is $431 per kW-yr. 0.45 to 2.5 million kW x $431 per kW-yr = $195 to $1,080 million.

57 August 22 Ruling, p. 4.

58 PU Code Section 739.9 (C) (1).

customers. Both the CARE and FERA programs and the associated percentage discounts to the electric bills of customers that are part of these programs are well known to California ratepayers. The CARE program has been part of the IOU rate offerings for over thirty years, and the FERA program has been in existence for approximately 20 years. The penetration of participation in CARE among eligible customers is high, and the Commission recently set a goal to increase FERA participation to similar levels.[59] Adopting IGFCs based on the CARE/FERA structure will aid in customer understanding.

8. Rates should avoid cross-subsidies that do not transparently and appropriately support explicit state policy goals

The adoption of any of the IGFC proposals before the Commission in this proceeding *will* result in a cross subsidy between higher-income and lower-income customers. However, it is consistent with the policy reflected in AB 205 that the implementation of an IGFC result in lower average monthly bills for low income customers. In addition, prior statutes have established the CARE and FERA programs to provide discounted rates for low income customers, with the loss in revenue requirement being subsidized by other customers.

9. Rate design should not be technology-specific and should avoid creating unintended cost-shifts

To date no party has proposed a technology specific IGFC.

10. Transitions to new rate structures should (i) include customer education and outreach that enhances customer understanding and acceptance of new rates, and (ii) minimize or appropriately consider the bill impacts associated with such transitions

The focal point of this rate design principle is the concept of transition – i.e., the process or period of changing from one state or condition to another. The Commission leaned heavily on

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[59] In Decision 21-06-015, the Commission directed the IOUs to take steps to increase participation in FERA to comparable levels to CARE by 2026.

this principle with the introduction of default TOU rates for residential customers in order to garner customer acceptance and understanding. It is readily apparent that the Commission must once again incorporate a transitional process into the implementation of a fixed charge.

As indicated in the Joint IOUs' opening testimony, the initial introduction of the concept of an IGFC to customers was far from favorable. As reported by Pacific Gas and Electric Company ("PG&E"), having surveyed both CARE and non-CARE customers, "initial reactions to the IGFC involve confusion and distrust."[60] Similarly, Southern California Edison Company ("SCE") reported that "[t]he charge evoked negative feelings of worry, helplessness, anger and/or confusion, with 66% feeling that it was not acceptable for SCE to have access to their income data and that they believed it was effectively a tax."[61] San Diego Gas & Electric Company ("SDG&E"), having interviewed customers representative of the following groups - low income, moderate-income, and high-income, as well as Spanish-speaking and existing solar customers - noted that "participants assumed the IGFC would automatically result in higher bills."[62] Moreover the customers of all three IOUs expressed confusion about the prospect that increased usage could be more affordable as it directly contradicts the conservation message they have been receiving for years.[63] The results of the IOUs' initial research indicate that there will be a steep learning curve to achieve customer understanding and acceptance of IGFCs.

Moreover, the last time the Commission considered the imposition of fixed charges on residential customers, ranging from just $6.40 to $10.00 per month, the inadequacy of the IOUs' ME&O plans in "describ[ing] how residential customers will be prepared to accept and

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60 Exh. Joint IOUs-1, p.111, lines 16-18.

61 *Id.*, p. 114, lines 3-6.

62 *Id.*, p. 113, lines 10.

63 *Id.*, p. 112, lines 5-7; p. 113, lines 11-13; p. 114, lines 11-14.

understand a charge that they cannot avoid"[64] was the primary reason behind the Commission's rejection of those proposed fixed charges. Prior forays into the adoption of fixed charges for residential customers also have been stymied as a result of the Commission's reservations about bill impacts and its concerns with residential customers' understanding and acceptance of a fixed charge.[65]

History as well as the record in this proceeding dictate that the Commission must proceed with measured steps in the implementation of the IGFC. An IGFC which relies on the income-tiered structure already embedded in rates is a good first step. However, acceptance of the IGFC will not occur if there is a significant difference in fixed charge levels between the CARE/FERA tiers and the remaining tier. The gradual transition which the Commission is advancing must be two-fold – customers must readily accept both the tier differentiations and a level of fixed charges for each tier. A fixed charge which results in modest bill increases or decreases for all customers, will provide the time for customer education, understanding, and acceptance of an IGFC. SEIA's proposal does just that as it will not radically change a customer's monthly electric bill in the initial period while the Commission "gain[s] experience from the first version of IGFCs and conduct[s] research and solicit[s] stakeholder input before providing design guidance for the next version of IGFCs."[66] In contrast proposals such as those advanced by the Joint IOUs and TURN/NRDC will have significant and immediate bill impacts on a large population of ratepayers.[67] This type of bill impact could lend itself to the very type of customer

64 Decision 20-03-003, p. 20.

65 See Decision 11-05-007, p. 24; Decision 96-04-050, pp. 161-162, *citing* Decision 86-12-091, Decision 87-12-066, Decision 87-12-069, Decision 88-07-023, Decision 89-12-057 and Decision 93-06-087.

66 June 19 Ruling, p. 3.

67 Exh SEIA-02, p. 3, lines 19-21. For example, the Joint IOUs initial proposal would have resulted in bill increases of 26% to 44% for customers earning over $150,000 per household in

backlash which has previously impaired the Commission's use of a fixed charge in residential rate design.

C. Costs to be Recovered through the Fixed Charge and Methodology Used to Calculate Costs (Scoping Memo Question 1.b)

There are both statutory and economic policy dimensions to the issues of what costs should be recovered through the fixed charge and what methodology should be used to calculate those costs.

1. Only Marginal Customer Access Charges Should be Recovered through a Fixed Charge

P.U. Code Sections 739.9(a) and (d) clearly define a "fixed charge" as a charge "not based on the volume of electricity consumed" that collects "a reasonable portion of the fixed costs of providing electric service to residential customers." Although the statute does not define a "fixed cost," as discussed above, the rules of statutory construction dictate that the term be interpreted as a cost that will not change based on the volume of electricity consumed.[68] If a cost is based on the amount of electricity that a customer consumes, then it should not be included in a fixed charge.

Cost Causation and Standard Utility Practice. The definition of fixed costs as those "not based on the volume of electricity consumed" is also consistent with the Commission's foundational rate design principle that rates should be based on cost causation.[69] If the amount of electricity that a customer uses, over a time period of any length, causes a cost to be incurred,

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cooler coastal climate zones, with no change in a customer's usage. Even Cal Advocate's more moderate IGFC proposal produces a rate increase of 13% for moderate income PG&E customers in the coastal baseline territory T. The bill impacts on existing solar customers are even more extreme, with existing NEM 1 and 2 customers facing the loss of one third to one-half (34% to 52%) of the bill savings from their solar investments. *See Id*, pp. 27-28, and Tables 6 and 7.

[68] SEIA Statutory Interpretation Brief, pp. 8-9.

[69] See Rate Design Principle 3 adopted in Decision 23-04-040.

then that cost should not be included in a fixed charge. The only element of the IOUs' cost of service that unambiguously does not vary with a customer's usage is marginal customer access costs. Customer access costs – the meter, service drop, and final line transformer, plus billing and customer service costs – are driven primarily by a customer's connection to the electric grid, and not by how much power they use. This is why SEIA's proposed new cost-based residential fixed charges are designed to collect no more than the IOUs' marginal customer access costs. SEIA's proposal is consistent with the Commission's longstanding rate design policy and practice for non-residential customers, which, for decades, have limited the fixed charges in non-residential rates to only customer access costs.[70] For example, the Commission has never included distribution costs in monthly fixed charges in electric rate design.[71] Basing fixed monthly charges on customer-related costs is also the standard rate design practice in the U.S. utility industry more broadly.[72] SEIA's proposed new residential fixed charges for non-CARE customers – from $9.72 to $13.57 per month – are in line with the average monthly fixed charge in the U.S. electric industry of $11 per month.[73] Finally, in this vigorously contested case,

[70] For the Commission to depart from this policy and practice in this track that is focusing just on residential rates would have significant ramifications for non-residential rates that this record has not explored.

[71] Exh. SEIA-01, p. 10, line 7 to p.13, line 8 and p.16 lines 8-18. In D. 17-09-035, at p. 13, the Commission noted that "[h]istorically, the Commission has separated distribution costs into two categories: customer-related and demand-related. Specifically, the meter, service drop, and final line transformer were considered as customer-related grid access facilities; all other distribution facilities were considered demand-related [footnote citing D.86-08-083 and D.88-12-085]."

[72] Exh. SEIA-01, p. 16, line 20 to p.17, line 11 which cites prominent published reviews of U.S. electric industry rate design practices with respect to the use of fixed charges in residential rate design.

[73] Exh. SEIA-02, p. 52, line 21 to p.53, line 5 and Figure 5.

marginal customer access costs are the one cost category that almost all parties agree should be included in the residential fixed charge.[74]

2. Other Proposed Costs for Inclusion in the IGFC Are Not Fixed

The record of this proceeding is rife with parties proposals to load up a fixed charge with a multitude of different costs. SEIA asks the Commission to undertake a detailed review of the cost categories that parties have proposed to be eligible for inclusion in an IGFC. As shown below, this review should find that the IGFC must be limited to marginal customers access costs.

a. EPMC Scalar

Electric rates in California for Commission regulated generation and distribution services[75] are based on marginal costs. Marginal costs are, by definition, the costs that a utility incurs to serve the next increment of customer usage of the specified portion of the electric system. There appears to be acceptance by the parties that marginal costs for generation and distribution are usage-based (i.e., "based on the volume of electricity consumed"), and thus are not fixed costs.[76] Rates based on marginal costs generally do not collect the full revenue requirements for generation or distribution, and they have to be "scaled up" by an equal percentage of marginal cost ("EPMC") factor until they recover the revenue requirement. The parties that propose high IGFCs make blanket assertions that the difference between marginal cost and the overall revenue requirement – the so-called "EPMC scalar" – is entirely fixed costs

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[74] See Exh. CalAdvocates-02, at pp. 8-9; Exh. TURN/NRDC-01, at pp. 3-4; Exh. SC-01E, at pp. 11-13; Exh. Joint IOUs-01-E2, at p. 39.

[75] Transmission rates in California are FERC-jurisdictional but are also driven by customer use of the transmission system. No party is proposing to include transmission costs in a fixed charge.

[76] The only exception is PG&E's marginal primary distribution costs for new customers, which PG&E argues is a customer-related cost that could be included in a fixed charge. This issue is discussed further below.

eligible for inclusion in an IGFC.[77] However, a detailed consideration of the costs that are actually included in the EPMC scalars for generation and distribution shows that many, if not most, of these costs are not fixed, for the following reasons:

- The revenue requirements for distribution and generation are based on traditional utility accounting, where the rate-base recovery of investments is front-loaded in time and decreases over time as the rate base depreciates. In contrast, marginal costs are typically the levelized costs of deferring an investment from one year to the next. Thus, the first-year impact on the revenue requirement of marginal investments being made this year will exceed those levelized marginal costs, with the difference being part of the EPMC scalar. This is shown graphically in Figure 5 of SEIA's rebuttal testimony for a hypothetical $10 million marginal investment in generation or distribution plant.[78] This portion of EPMC scalar costs is a direct result of current customer usage and cannot be considered fixed costs.

- The EPMC scalar costs for distribution and generation include the costs for a host of different programs. The proponents of high IGFCs have made blanket assertions that all EPMC scalar costs are fixed, without providing detailed justifications why the costs for each of these programs are not driven by customer usage. Indeed, the Joint IOUs were unable even to provide a list of the programs included in their non-marginal distribution costs, when asked to do so in discovery. The best they could do was to provide a list of programs "which contribute to the total distribution revenue requirement."[79] Inspection of this list revealed many programs whose costs are driven by customer use of the grid. These include demand response and emergency capacity programs driven by customer's peak period usage, as well as transportation electrification programs to expand distribution facilities to meet higher customer usage of kWh and kW for EV charging.[80]

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77 See Exh. CalAdvocates-02, pp. 8-9; Exh. TURN/NRDC-01, pp. 3-4; Exh. SC-01E, at pp. 11-13; Exh. Joint IOUs-01-E2, p. 39.

78 Exh. SEIA-02, p. 4, 1ine 1 to p.5, line 2 and Figure 1.

79 *Id*., p. 54, line 21 to p.55, line7.

80 *Id*., p. 55, line 8 to p.55, line 18.

- The proponents of high fixed charges also point to the burgeoning costs to upgrade the safety of the IOUs' distribution systems (including wildfire hardening) and to improve reliability as examples of allegedly "fixed" costs, unrelated to customer usage, that are in the EPMC scalar and should be included in a fixed charge. In essence, they contend that each residential customer should pay the same amount each month for these costs, regardless of how much they use the grid, simply because they are connected to the grid. But the need to spend money for wildfire hardening, safety, and reliability is not the result of simply being hooked up to the grid – the need for these programs is due to power actually flowing through the wires and customers using that power in their homes. Wildfires do not happen unless customers are using electricity, power is flowing, and the wires are energized. Today, in a world of climate change, these new costs must be spent to ensure that, when customers use power, that power can be delivered safely and reliably. Thus, customers should be charged for these costs based on the amount that each customer uses the grid, i.e., based on the volume of their electric use. These are not fixed costs for which every customer in an income tier should be charged the same amount each month. To include these costs in a fixed charge would violate P.U. Code Sections 739.9 (d) (1), which mandates that any adopted fixed charge must "[r]easonably reflect an appropriate portion of the different costs of serving small and large customers."

Another way to look at this issue is to recognize that, when customers use electricity in California today, the delivery of that power now must meet higher standards for fire safety and reliability. The costs for wildfire hardening and to improve the reliability of the distribution grid are the costs for that higher level of distribution service. These costs are not the same for every residential customer and should be assessed based on the volume of each customer's use of the utility's distribution service. For example, if the distribution line serving a community is nearing capacity and must be upgraded, the cost to do that in California today is not just the cost of upgrading the line to a higher voltage or larger conductors – the new line also must meet the new standards for fire safety and reliability.[81]

[81] See Exh. SEIA-02, p. 53, line 16 to p.54, line 19.

b. Marginal Primary Distribution Costs for New Business

The Joint IOUs and TURN/NRDC argue that PG&E's marginal primary distribution costs for new business should be included in the IGFC, on the grounds that these are "customer-related" costs.[82] But these are not costs for the meters, service drop, and transformers necessary to provide new customers with access to the grid. Rather, they are the costs to extend primary distribution circuits, for example, to a new greenfield residential subdivision. These costs depend not on the number of new customers served, but on the kWs of demand that the new customers will use. This is demonstrated by PG&E's longstanding practice of calculating its marginal primary distribution costs for new business on the basis of the kW of new demand, not on the basis of the number of new customers. PG&E's marginal primary distribution costs for new business are driven by customer usage and should not be included in a fixed charge.[83]

c. Non-Bypassable Charges

The record includes disparate proposals asking the Commission to find certain of the "nonbypassable charge" ("NBCs") embedded in electric rates to be eligible for inclusion in a residential fixed charge. Each party seems to have their own list of NBCs that should be eligible for fixed charge recovery. This divergence of opinions should cause the Commission to carefully review the assertions for why the costs included in each NBC are supposedly "fixed." The fact is that when these costs are examined it is readily apparent that they are not fixed.

First, as referenced above, parties generally agree that today's marginal generation costs are not fixed costs and are driven by customer usage of kW of demand and kWh of energy.

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[82] See Exh. TURN/NRDC-01, pp. 20-21; Exh. Joint IOUs-01-E2, p. 39.

[83] Exh. SEIA-02, at pp. 55:20 to 56:5, citing PG&E's own testimony in its last GRC Phase 2 case that, for its marginal primary distribution costs for new business, "the cost driver is customers' non-coincident peak <u>demand (in kW)</u> at the final line transformer" (emphasis added).

Many of the proposed NBCs clearly are closely related to current generation costs, and therefore should be recovered volumetrically for that reason. They are either current costs for programs that are substitutes for generation – such as the energy efficiency program costs collected through the Public Purpose Program ("PPP") charge – or are current generation-related costs collected from all customers because the Commission has found them to be common, system-wide costs that should be paid by all customers who use generation. These include nuclear decommissioning costs, the New System Generation Charge, and the Local Generation Charge. Customers should pay for these generation-related costs based on the amount of generation that they take from the system, as has been longstanding ratemaking practice in California.

Second, there are certain costs for subsidies or above-market costs that are incurred volumetrically, and thus for reasons of equity and cost causation should be collected volumetrically in rates. The PPP charge includes recovery of CARE discounts for the utility costs that are collected volumetrically.[84] When a CARE customer uses a kWh, it receives a 30% to 35% discount on the costs collected volumetrically for that kWh of usage, and these CARE discounts are recovered through the PPP charge. It is fair and consistent with cost causation that each kWh of usage by a non-CARE customer obligates that customer to pay for the volumetric CARE discount associated with the costs collected for that kWh of usage. It makes no sense to recover these volumetric CARE discounts through a fixed charge, because that will result in low-usage non-CARE customers in a specific income tier funding a greater portion of the volumetric CARE discounts than is equitable based on their usage. This would be contrary to P.U. Code

[84] For the fixed charge discounts for CARE customers, SEIA proposes that these be collected through higher fixed charges on non-CARE customers. This recovery of the CARE fixed charge discounts is included in SEIA's IGFC proposal.

Sections 739.9 (d) (1), which requires that any adopted fixed charge must "[r]easonably reflect an appropriate portion of the different costs of serving small and large customers."

Similarly, TURN/NRDC propose to include the Power Charge Indifference Adjustment (PCIA) in their IGFC.[85] The PCIA represents the short-run above-market costs of generation resources purchased on behalf of a bundled customer who leaves the IOU's generation service to purchase generation from another provider such as a Community Choice Aggregator The costs in the PCIA are largely the above-market costs from higher-priced long-term power purchase contracts from the earlier years of the state's Renewable Portfolio Standard ("RPS") program. RPS costs are incurred volumetrically – the RPS goals are a stated percentage of utility sales, in kWh. In other words, RPS costs are caused by customers' usage of kWh. In addition, California's willingness to sign those early RPS contracts helped to bring down the cost of renewables to the lower levels that ratepayers enjoy today when they buy renewable power. So, from both cost causation and equity perspectives, it is reasonable for today's customers to pay for those past above-market generation costs – from which they continue to benefit – on the basis of the kWh of generation that they use today. Customers who use more renewable generation today should make a greater contribution to the above-market costs of the older renewable contracts from which they continue to benefit. If the PCIA were included in an IGFC, all ratepayers in the same income tier would make the same dollar contribution to the PCIA each month, regardless of the amount of generation that they use. This would be manifestly unfair to the smaller customers who use less generation and contrary to P.U. Code Sections 739.9 (d) (1), which mandates that any adopted fixed charge must "[r]easonably reflect an appropriate portion of the different costs of serving small and large customers. Finally, the PCIA is vintaged, and

[85] Exh. TURN/NRDC-01, pp. 20-21.

varies significantly based on when a customer left bundled service. TURN/NRDC assert that it would not be too complicated or too confusing to calculate vintaged IGFCs that include vintaged PCIAs, but their assertion is undermined by the fact that they could not do those calculations themselves and just assert that the IOUs can figure it out.[86]

3. The Social Marginal Costs of Electric Service Do Not Provide Basis for High Fixed Charges

Advocates for a high fixed charge rely on the assertion that that current volumetric residential rates in California are far above the "social marginal costs" of electric service, which include the costs of mitigating the environmental impacts of that production. In support of this assertion, these parties all cite a study from Next 10 that compares retail rates to short-run social marginal costs ("SRSMC");[87] they also cite the long-run marginal avoided costs from the Commission's Avoided Cost Calculator ("ACC"), which includes certain avoided environmental costs that directly impact utility rates.[88] They assert that the portion of electric system costs to be recovered in a fixed charge should be set at roughly the difference between retail rates and these measures of social marginal costs, so that electricity consumption is priced at no more than its marginal costs to society.

There are two fundamental problems with these assertions. First, electric rates in California have long been based on long-run marginal costs, and the economist Alfred Kahn, who TURN/NRDC cite as authority for the assertion that SRSMC should be the benchmark, actually favored the use of long-run marginal costs.[89] Second, the social marginal costs used in

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86 *Id.*, at p. 21.

87 See Exh. Joint IOUs-01-E2, p. 35; Exh. TURN/NRDC-01, pp. 6-11.

88 *Id.*

89 Exh. SEIA-02, p. 44, line 2 to p.45, line 5.

the Next 10 study, on which the Joint IOUs and TURN/NRDC rely, used long-run avoided costs from the 2019 ACC, which are hopelessly outdated today.[90] Since the 2019 ACC, the Commission has completed two major updates and a minor update to the ACC, including a major update in 2020 that restructured the ACC to align it more closely with the state's IRP process.[91] In addition, more recent studies in the last several years have raised significantly the best estimates for the societal damages from carbon emissions and criteria air pollution from power plants. Thus, the social marginal cost values used in the Next 10 Study are completely outdated.

SEIA's rebuttal testimony provided an updated calculation of social marginal costs for 2022. This update used the 2022 ACC, with the avoided energy costs revised to use actual 2022 CAISO market prices.[92] For the avoided environmental costs, SEIA updated Next 10's work to use new values proposed by the Biden administration's E.P.A. for the social cost of carbon.[93] SEIA's update also includes all methane leakage associated with natural gas burned for electric generation in California and the results of recent Commission-sponsored research on the health benefits of reductions in criteria air pollution from gas-fired power plants. These updates to the social marginal costs of electric service are consistent with the societal benefits included in the societal cost test that Commission staff has proposed in R. 22-11-013 and that the Commission is now reviewing in that docket.[94] These updates to California's social marginal costs show that today's long-run social marginal costs ("LRSMCs") actually are close to current electric rates,

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90 *Id.*, p. 45, line 7 to p.45, line18.

91 See D. 20-04-010, D. 22-05-002, and Resolutions E-5077, E-5150, and E-5228, all adopting updates to the ACC since the 2019 ACC.

92 Exh. SEIA-02, p. 46, line 1 to p.46, line 9.

93 *Id.*, p. 46, line 10 to p.47, line 19.

94 *Id.*, p. 48, line 1 to p.49, line 3.

differing by less than 5% from PG&E's average residential retail rate.[95] Thus, the actual social marginal costs of today's electric service in California do not provide an economic rationale for high IGFCs. Further, today's rates are below social marginal costs in the summer on-peak TOU period, and above social marginal costs in off-peak periods. [96] Accordingly, an up-to-date analysis of social marginal costs supports (1) modest IGFCs, such as SEIA's proposal; (2) increasing the time-of-use rate differentials in residential TOU rates (particularly for the default residential rates such as the PG&E E-TOU-C rate); (3) maintaining high on-peak rates; and (4) reducing off-peak rates.[97]

Finally, SEIA would note that in the round of comments after submitted of rebuttal testimony, the only criticism of SEIA's new calculations of the social marginal costs of electric service in California came in a footnote in the Joint IOUs' opening comments. This criticism was limited to SEIA's alleged advancement of "arguments repeatedly rejected by the CPUC in the IDER (R.14-10-003) and NEM Successor (R.20-08-020) proceedings, most recently in D.22-05-004." [98] The Joint IOUs do not specify what those rejected arguments are. The fact is that the Commission has never adopted "social marginal costs," and it is still in the process of adding societal benefits to the ACC in R. 22-11-013. As a result, any calculation of social marginal costs for this case (including the one done years ago in the Next 10 reports, on which the Joint IOUs rely) is going to be a new exercise that the Commission has not adopted in any past proceeding. SEIA's calculation starts from the currently adopted 2022 ACC, updates the forecasted avoided energy costs in the 2022 ACC to use actual 2022 values, adds the societal

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95 *Id.*, p. 49, line 10 to p.49, line 14 and Figure 3.

96 *Id.*, p. 49, line 4 to p.50, line 5 and Figure 3.

97 *Id.*, p. 49, line 4 to p.50, line 13 and Figures 3 and 4.

98 See Joint IOU Opening Comments, at p. 14, footnote 26.

benefits from the staff proposal in R. 22-11-013, and uses the most recent U.S. government proposal for the social cost of carbon. It is a fully up-to-date calculation of the social marginal costs of electric service in California.

D. Income Thresholds for the Income-Graduated Fixed Charge (Scoping Memo Question 1.c)

Compliance with the AB 205 requirement that the IGFC have "no fewer than three income thresholds" means that there must be a minimum of three fixed charge levels.[99] The first threshold would be > $0.00 because, based on the statutory language, any customer which has any income (employment or investment) is subject to a fixed charge. The second and third thresholds must be established by the Commission. In the August 22 Ruling, the Commission stated that it will "rely on existing income verification processes used by the Commission for the California Alternate Rates for Energy (CARE) and Family Electric Rate Assistance (FERA) programs."[100] While use of those programs income verification *processes* does not dictate that the income thresholds for those programs be used for the purpose of establishing the income tiers for the IGFC, as discussed below, realities dictate that they must. Accordingly, for the first version of the IGFC the Commission should establish the following tiers:

- The highest Tier 3 fixed charge should apply to customers who do not qualify for CARE or FERA.
- The Tier 2 fixed charge should be set at an 18% discount to the Tier 3 charge and would apply to customers whose income and household size qualify for FERA.
- The Tier 1 fixed charge would be set at the prevailing CARE discount (30% to 35%, depending on the IOU) and apply to CARE low income customers.[101]

99 SEIA Statutory Interpretation Brief, pp. 4-6.

100 August 22 Ruling, p. 4.

101 The Tier 1 fixed charge should be adjusted as necessary to ensure that the average low income ratepayer receives a bill reduction in every baseline territory, without making any changes in usage, as required by AB 205.

1. CARE and FERA Income Verification Processes Cannot Be Expanded Beyond Current Subset of Customer Base

In total, CARE and FERA customers comprise approximately 25% of each major IOU's residential customer base. [102] As explained by the Joint IOUs, the income verification process for these customers is comprised of self-certified information which includes (1) household size and (2) either proof of (a) their participation in one or more public assistance programs or (b) their household income and income sources. Each large IOU then validates a sample of its CARE/FERA-enrolled customers through an annual Post-Enrollment Verification process. Through this process, SCE, PG&E, and SDG&E validate approximately 7%, 8%, and 6% of enrolled customers, respectively.[103] The Joint IOUs explained that, even with limited post enrollment verification, in 2022 the costs for this level of CARE and FERA income verification was approximately $2.1 million, or approximately $9 per customer verified.[104] The CARE/FERA income verification process does not translate to the broader customer base, as explained by the Joint IOUs:

> Examining the CARE program's income verification process and costs illustrates that an IOU-led process similar to the CARE Post-Enrollment Verification process would be unreasonable and exceedingly expensive to scale to the entire electric residential population. For the Joint IOUs, the cost of CARE Post-Enrollment Verification in 2022 was $2.1 million, to verify the selected subset of approximately 230,000 CARE customers. This equates to approximately $9 per customer on average. But such average cost per customer is based on current CARE processes after decades of refinement, such that the per-customer costs for administering a completely novel IGFC income verification process would almost certainly be higher due to startup costs. Scaling the current CARE verification cost of approximately $9 per customer to the entire 10.8 million electric joint-IOU customers who need to have income assessed to determine the IGFC bracket for each and every customer (since IGFC is not an opt-in program) would put the cost at approximately $97 million. However, initial annual costs would likely reach

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102 The customer population enrolled in CARE/FERA is 24%, 25% and 27% for PG&E, SCE, and SDG&E respectively. *See* Exh. Joint IOUs-01, p. 69, footnote 100.

103 Exh.t Joint IOUs-01, p. 61, lines 21-22.

104 *Id.*, p. 61 lines 14-16.

> upwards of $100 million to implement when also factoring in startup costs (which the cited $9 per customer cost does not include).[105]

The Joint IOUs go on to explain that:

> If verifying all customer income information is cost-prohibitive, proceeding only with customer self-stated income information is unreasonable for reasons of accuracy and billing integrity. There would be little incentive for a high-income customer to provide accurate data and it is also likely that a significant portion of customers would fail to provide income data, forcing those customers to be assessed the default fixed charge [106]

In short, applying the same income verification process as used for the CARE/FERA programs for the purposes of creating income tiers beyond those currently used for those programs is not cost effective nor does it ensure any degree of accuracy. For the purposes of the first version of the IGFC the Commission should not only apply the same income verification process used for CARE/ FERA customers but should also use the income thresholds and eligibility requirements associated with those programs.

2. Applying the CARE and FERA Eligibility Requirements to the IGFC

The CARE and FERA income thresholds are based on the federal poverty guidelines and use both household income[107] and household size. Figure 1 of Exhibit SEIA-01 provides a graphic showing the 13 different income thresholds that are used to determine CARE or FERA eligibility. Ranging from 1-2 person households with an income of $36,620 to an 8+ person household with an income of $116, 575. Household size is a critical factor in the need for energy assistance, as shown by the inclusion of household size in the federal poverty guidelines and in the longstanding CARE/FERA eligibility requirements. In order to ensure equity in the

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105 Exh. Joint IOUs-01, p.71, lines 3-16

106 *Id.*, p. 71, lines 17-21.

107 CARE customers are those with annual household incomes that are no greater than 200 percent of the federal poverty guideline levels and FERA customers are those with annual household incomes that are greater than 250 percent but no more than 250 percent of the federal poverty guideline levels.

assessment of the fixed charge the Commission must consider household size. A one person household with an income of $75,000 is simply not the same as a six-person household with a household income of $75,000.

In order to account completely for household size in the first two tiers of the IGFC, a minor change to the existing FERA eligibility requirements is needed. FERA currently has a minimum size of 3 persons per household. SEIA proposes that the second FERA tier of income-graduated fixed charges also should apply to 1-2 person households with incomes from $36,621 to $46,060.[108] This slight expansion of the FERA eligibility standards would apply only to the income-graduated fixed charges. We are not proposing an expansion of FERA discounts for the remainder of the rate for 1-2 person households

SEIA notes that certain parties have expressed concern that limiting Tier 2 to only FERA customers would result in too small a Tier 2, with the Joint IOUs pointing out that FERA customers comprise just 1% of existing residential customers.[109] But that small number does not represent the number of customers eligible for the FERA program, but rather the low level of participation, a failing which the Commission has already committed to remedy.[110] If FERA participation can be brought up to levels comparable to current CARE penetration, then a FERA second tier would be five to seven times larger than today's FERA program.[111] The marketing, education and outreach plan associated with the IGFC should include targeted marketing to increase knowledge of and participation in the FERA program. Indeed, in order to ensure that

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108 Exh. SEIA-01, p.21, lines 8-16.

109 *See* Exh. Joint IOUs-04, p. 15, lines 11-14.

110 In D. 21-06-015, the Commission directed the IOUs to take steps to increase participation in FERA to comparable levels to CARE by 2026.

111 Based on the May 2023 Low Income Monthly Reports from each IOU on FERC and CARE participation. See https://liob.cpuc.ca.gov/monthly-annual-reports/.

ratepayers who qualify for the lower tier fixed charges are assessed those charges as significant part of the IOUs' outreach plan should be to increase the participation in those programs. Failure to do so will result in low-income customers being assessed high fixed charges.

E. Variance in Fixed Charge by Income Threshold (Scoping Memo Questions 1.d and 1.e)

In determining how the fixed charge should vary by income threshold, the Commission should first be guided by the directives of the statute. AB 205 describes the design of the IGFC as follows: "[t]he fixed charge shall be established on an income-graduated basis with no fewer than three income thresholds so that a low income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage."[112] As referenced above, the standard of a "lower average monthly bill" is ambiguous, because the statute does not state exactly what the average bill has to be lower than. SEIA, however, agrees with other parties that the most reasonable interpretation of this language is that "a lower average monthly bill" means that, in each baseline territory, the average low income customer's bill after implementation of the IGFC must be lower than their bill before the fixed charge was implemented, assuming the same usage. In addition, however, the statute does not clearly define "low income ratepayer." There are three possible definitions: (1) only CARE customers,[113] (2) all customers eligible for either the CARE or FERA programs,[114] or (3) customers eligible for the CARE and FERA programs, with the customers in each program considered individually. The

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[112] P.U. Code Section 739.1(c)(1).

[113] This interpretation is supported by the definition of low-income in P.U. Code Section 739.1.

[114] This interpretation recognizes that "low-income ratepayer" should include those who qualify for either the CARE or FERA programs, as that is the full universe of customers to whom rate discounts are provided due to their lower incomes than other ratepayers.

issue of this definition was briefed earlier in this proceeding.[115] SEIA submits that the rules of statutory interpretation support both the first and second interpretations. The third interpretation introduces a level of specificity that is simply not in the statute.

SEIA's modified IGFC proposal, presented in the shaded section of Table 2 of its rebuttal testimony, is reproduced in the table below.[116]

Exh. SEIA-02, Table 2: *Final SEIA IGFC Proposal ($ per Month)*

Customer Income Tier	PG&E	SCE	SDG&E
CARE	3.37	3.44	6.21
FERA+	7.96	8.29	11.12
All other	9.72	10.11	13.57

Attachment RTB-3 to Exhibit SEIA-02 provides the requested output from the E3 Fixed Charge Tool. The outputs from the E3 Tool show that all CARE customers receive bill reductions under the SEIA proposal. SEIA also illustrated that the average bill impacts across both the CARE and FERA tiers of SEIA's proposed IGFC show average bill reductions in all baseline territories.[117] We submit that this shows that SEIA's proposed IGFCs meet the statutory

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[115] For example, the Joint IOUs' brief supported the first interpretation. *See Joint Opening Brief of Pacific Gas and Electric Company, San Diego Gas & Electric Company and Southern California Edison Company on Statutory Interpretation Question Posed by December 9 Ruling*, R. 22-07-005 (January 23, 2023), p.16. In contrast, TURN and NRDC's brief notes that other portions of the Public Utilities Code reference "low-income" customers as including those eligible under CARE, FERA and the Energy Savings Assistance (ESA) program. *See Opening Brief Of The Utility Reform Network And The Natural Resources Defense Council On Statutory Interpretation Of The Requirements Of Assembly Bill 205*, R. 22-07-005 (January 23, 2023), p.3.

[116] Exh. SEIA-02, p. 7, line 8 to p.8, line 2, especially Table 2.

[117] There are some baseline territories in which there are small bill increases for FERA customers that are more than offset by bill reductions for the larger tier of CARE customers, such that the average CARE/FERA customer sees a decrease. These baseline territories include PG&E T, V, and X; SCE 6. 8. and 9; and SDG&E Coastal.

standard of a lower monthly bill for the average low income ratepayer in each baseline territory.[118]

F. Applicability of Fixed Charges to Non-Default Rates (Questions 1.a and 1.f)

1. Increasing Fixed Charges for Residential Electrification Rates Undermines Decision 22-12-056

In considering whether IGFCs should apply to non-default rates, the Commission must examine the impact of doing such on its ability to meet the statutory mandates of AB 327 as set forth in P.U. Code Section 2827.1(b)(1). Specifically, in Decision 22-12-056 the Commission mandated that prospective solar and solar-plus-storage customers must take service under a limited set of residential electrification rates. This requirement was part of the careful balance of interests that the Commission struck in crafting the new Net Billing Tariff in D. 22-12-056. [119] This balance is mandated through statutory requirements of AB 327. Today, these electrification rates have monthly fixed charges of $15 to $16 per month. SEIA has proposed similar IGFCs for default residential rates, with non-CARE monthly fixed charges that are similar to and just slightly lower than the fixed charges of $15 to $16 per month in the IOUs' current residential electrification rates. As a result, if SEIA's IGFC proposal for default rates is adopted, the issue of modifying the current residential electrification rates will be moot, and the Commission will not be confronted with ensuring that a high IGFC does not upset the balance of interests so careful crafted in Decision 22-12-056.

However, if one of the proposals for high IGFCs is adopted and the Commission is faced

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[118] SEIA also provided the details of the calculations to support this conclusion in a response to TURN/NRDC Data Request #2, Question 2, which is Exhibit SEIA-06.

[119] See D. 22-12-056, p. 2 ("The current net energy metering tariff and its subtariffs are revised to balance the multiple requirements of the Public Utilities Code and the needs of the electric grid, the environment, participating ratepayers, as well as all other ratepayers.").

with the issue of whether the fixed charges in the existing electrification rates should be raised, then it must examine the impact of such an increase on customers taking service on the NBT. With high IGFCs and lower volumetric rates, prospective solar and solar-plus-storage customers would see major reductions in the bill savings available to them from their investments in these resources. These reductions are documented in Section VI.A of SEIA's rebuttal.[120] No party has refuted that these impacts would occur. If the Commission approves IGFCs applicable to the residential electrification rates used by NBT customers that are higher than the current fixed charges, the Commission must adopt changes to the NBT and also must provide legacy treatment for NEM 2.0 customers in order to comply with AB 327. Such legacy treatment is necessary to avoid adverse impacts on the millions of customers who have made or want to make significant investments in the state's clean energy infrastructure. Specifically, the Commission should (1) raise the ACC Plus Adders in the NBT to compensate for changes to the design of the residential electrification rates, as illustrated in Table 8 of Exh. SEIA-02,[121] and (2) allow NEM 2.0 customers to retain their current rate design for legacy periods of 5 years for solar-only customers and 8 years for solar-plus-storage customers. SEIA's rebuttal testimony includes the analysis showing why these changes are necessary to restore the balance required by AB 327.[122]

In contrast, the proponents of high IGFCs have admitted that they did not consider the

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[120] For example, under the original Joint IOU proposal and the TURN/NRDC proposal, most paybacks for new solar and solar-plus-storage systems would be significantly longer than the benchmark of 9 years used in D. 22-12-056. *Id.*, at p. 27, Tables 6 and 7.

[121] Table 8 shows the revised ACC Adders assuming adoption of either the original Joint IOU proposal or the TURN/NRDC proposal. If the Commission adopts IGFCs that are different than either of these proposals, it is a straightforward exercise to use the NBT model that the Commission developed in R. 20-08-020 and used in D. 22-12-056 to calculate revised ACC Adders for whatever IGFC larger than $15 is adopted.

[122] Exh. SEIA-02, p. 26, line 14 to p.28, line 5, especially Tables 6 and 7, and p. 30, line 10 to p.32, line 19, especially Table 8.

impacts of their proposals on NBT or NEM 2.0 customers.[123] Nor have they provided any remedies for the harm that they would do to the clean energy investments of these customers, or any indication of how their proposals would comply with P.U. Code Section 2827.1(b)(1). Adopting high IGFCs and revising the residential electrification rates without dealing with the bill impacts on solar and solar-plus-storage customers would be contrary to Rate Design Principle No. 10 that "[t]ransitions to new rate structures should… minimize or appropriately consider the bill impacts associated with such transitions."

2. Proposals to Increase Fixed Charges in Electrification Rates are Not Justified

The Joint IOUs have proposed that the IGFCs applicable to the IOUs' electrification rates should continue to be about $15 per month higher than the default IGFCs, in order to preserve the differences between these fixed charges that exist today.[124] The argument appears to be that this would preserve the incentive that exists today for customers who adopt electrification measures to use the electrification rates. <u>This proposal completely undermines the Joint IOUs' own key argument that default rates with high IGFCs are important for electrification</u>. In making this proposal, the IOUs are conceding that what is important for electrification is to move electrification customers onto electrification rates that will allow them to save more money operating their EVs and heat pumps. SEIA agrees 100% with this line of thought, but it also means that <u>the design of the default rates and the size of the IGFC really do not matter for promoting beneficial electrification – what does matter is the design of electrification rates and the marketing campaign to ensure that all electrification customers use those rates</u>. SEIA has

123 See the responses of the Joint IOUs to SEIA DR 1, Q7 and of TURN/NGC to SEIA DR 1, Q7, which are included in Attachment RTB-4 to Exh. SEIA-02.

124 Exh. Joint IOUs-01-E2, p. 51, suggesting that electrification rates "may need to have higher overall fixed charges than the default rate's IGFCs."

demonstrated repeatedly in this case that today's existing electrification rates, with their low off-peak rates, are just as effective as the proposed default rates with high IGFCs – and in some cases more effective – at providing the low off-peak rates needed by electrification customers.[125]

G. Impact of Fixed Charges on Grid Defection

In examining the level at which to set fixed charges, the Commission cannot lose sight of the unintended consequences of setting fixed charges too high. At bottom, the only way for customers to avoid a very high fixed charge is to leave the system entirely. This is not a desirable outcome, as customers who defect make no contribution to grid costs. Technology is increasing the economic potential for grid defection, due to the wide availability and declining costs of solar paired with batteries, and the potential for emerging electric vehicle-to-home ("V2H") technology to allow EVs to serve as backup to the home's solar plus storage system. SEIA is the only party to present substantial evidence on how the proposals for high IGFCs would increase the economic incentive for customers to move off the grid.[126]

SEIA developed and presented in testimony a detailed model of the economics of grid defection in California, for residential customers of the three IOUs. This model looked at both current solar and storage costs, as well as 2025 costs projected by the National Renewable Energy Lab ("NREL"). The model also includes two types of backup for the solar-storage system, either a standard on-site fossil backup generator burning natural or an EV supplying power through a V2H connection. These backup sources of power allow the customer's off-the-grid home to have reliable electric service in all hours of the year; the V2H option has no emissions and the customer will be buying the EV for other reasons (transportation). In their

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125 *See* Exh. SEIA-01, p. 32, line 21 to p.34, line 13; *see also* Exh. SEIA-02, pp. 14-21.

126 Exh. SEIA-02, pp. 34-42.

rebuttal testimony, TURN/NRDC recognize that "[g]rid defection could become a serious issue if the private cost to customers of reliably meeting their full power needs is lower than the aggregate bills paid to the electric utility." TURN/NRDC comment on the standards that an analysis of grid defection would have to meet; these include using up-to-date costs and electric rates and providing a comparable level of reliability as grid service.[127] SEIA's model meets this standard.

The results of SEIA's grid defection model show that, at today's solar and storage costs, the economics of residential grid defection using a natural gas generator as backup are marginal and have longer paybacks than remaining on the grid with a smaller solar-plus-storage system under the Net Billing Tariff that the Commission adopted in D. 22-12-056. However, SEIA's model also shows that, if solar and storage costs fall as NREL projects, and as V2H technologies emerge that provide convenient and clean backup power, grid defection will become more economic than the 9-year paybacks that are the benchmark for the NBT.[128] This will be particularly true if high IGFCs significantly increase the paybacks from the solar and solar-plus-storage systems that remain on the grid, and if there are very high fixed charges for the higher-income customers who are exactly the ones with the greatest financial ability to invest in an off-the-grid system. The Sierra Club's very large IGFCs (up to $189 per month for SCE) for its highest income tier produce the shortest paybacks from grid defection. The Joint IOUs' original IGFCs also result in paybacks from grid defection that are more attractive than remaining on the system and installing solar-plus-storage under the NBT.[129]

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127 Exh. TURN/NRDC-02, pp. 45-47.

128 *Id.*, at p. 40, line 1 to p.41, line 11, especially Tables 10abc.

129 *Id.*

The proponents on high IGFCs admitted in discovery that they did not consider grid defection in formulating their proposals.[130] The Next 10 study that inspired these parties high IGFC proposals dismisses the potential for grid defection by criticizing the assumptions in an older U.C. Berkeley study (the UCB Study) that found some potential for grid defection under certain conditions. NRDC/TURN also reference this study, but point out its defects. [131] Nonetheless, even Next 10 warned that grid defection could increase "as technology improves and the financial incentives for defection increase, making income-based fixed charges relatively less viable compared to covering residual costs through the state budget."[132] SEIA's review of the UCB Study shows that it used now vastly outdated 2016 retail rates, over-estimated the size of the necessary home storage system, did not provide service in 100% of hours, and predated the emergence of V2H technology.[133] SEIA's new model has addressed all of these issues.

It is also important to recognize that SEIA analyzed complete grid defection by individual residential customers. This may well be a harder and more expensive way to leave the grid than other possible options, such as defecting for part of the year, installing a micro-grid for a new greenfield neighborhood, or seeking service from a neighboring community's existing municipal utility.[134] The fundamental point is that high IGFCs for the highest-income customers will focus their attention and economic resources on how to avoid those charges. This will risk

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130 See the response of the Joint IOUs to SEIA DR 1, Q5 and the response of TURN/NGC to SEIA DR 1, Q5, both of which are included in Attachment RTB-4 to Exh. SEIA-02.

131 Exh. TURN/NRDC-02, pp. 46-47.

132 Next 10 Study, pp. 32-33.

133 Exh. SEIA-02, p. 35, line 8 to p.37, line 16.

134 Exh. SEIA-02, p. 41, line 13 to p.42, line 8.

the undesirable result of balkanizing electric customers in California into those who can afford to avoid the grid's costs of leaving the system and those who cannot.

II. ADJUSTMENT OF RESIDENTIAL RATE COMPONENTS TO REFLECT FIXED CHARGES (Scoping Memo Questions 2 and 3)

A. Adjustment to Volumetric Rates

Proponents of high fixed charges, such as the Joint IOUs, Cal Advocates and TURN/NRDC would limit the Commission's discretion to adjust the volumetric portion of residential rates to one of two options – neither of which advance electrification. Specifically, these parties would limit the Commission to the options available in the E3 model used in this proceeding to model parties' fixed charge proposals – i.e., either an equal cents per kWh decrease or an equal percentage reduction across all TOU periods.[135] But this type of across-the-board reduction in volumetric rates is detrimental to ensuring a reliable grid as well as achieving the state's energy policy goals, as discussed above in Section II.B. 5. The fact is that California faces continued challenges meeting summer peak demands, and conservation and efficient energy use must remain policy priorities to limit demand in the peak periods. Moreover, the record demonstrates that across the board reductions in volumetric rates are not necessary to incent electrification. Finally, the rationale provided for limiting the Commission's discretion to modify the volumetric portion of the rate do not withstand scrutiny. Accordingly, the Commission should not use revenues from IGFC to make large reductions to all volumetric TOU rates – in particular, the Commission should not significantly reduce summer on-peak rates.

1. Volumetric Rate Reductions in All TOU Periods Are Not Necessary to Incent Electrification

Across the board reductions in the volumetric rates in all TOU periods are not necessary

135 Exh. SEIA -03, p. 4, lines 11-15.

to incent electrification. What is far more important is that the electrification rates have larger differentials between on-peak and off-peak rates than the default rates, resulting in lower off-peak rates that are much more attractive for incremental electric use such as EV charging.[136] This is evident from the current design of the IOUs' electrification rates which have summer on-peak rates which are over twenty cents higher than their off-peak rates.[137] The Joint IOUs argue that even if such is true, that their proposal results in greater TOU rate ratios than SEIA's proposal and thus provides a greater incentive to shift usage to non-peak periods. In support of this contention, they point to a comparison in the ratios of the on-peak rates to the off-peak rates (the "POP ratios") in SDG&E's proposed TOU-DR1 rate to the POP ratios in SEIA's proposal for this same default rate

First, the economic incentive in a TOU rate structure, in terms of the motivation for a customer to shift load, is given by the POP rate difference in $ per kWh, not by the POP ratio. The POP rate difference is the direct and relevant measure of the economic incentive that a customer faces to move a kWh of load from the on-peak period to the off-peak period.[138] As shown in Table III-1 of the Joint IOUs' reply comments,[139] the $ per kWh POP rate differences in SDG&E's current version of its TOU-DR1 rate are the same as those contained in its proposed TOU-DR1 rate with a very high fixed charge. Thus SDG&E's proposal contains no additional incentive to shift usage.

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[136] Exh.SEIA-01, p. 33 lines 7-10.

[137] See PG&E Electric Schedule E-ELEC, Sheet 2 https://www.pge.com/tariffs/assets/pdf/tariffbook/ELEC_SCHEDS_E-ELEC.pdf

[138] Exh. SEIA-03, p. 5, lines 1-4.

[139] The Joint IOUs originally presented this table as Table II-4 in Exhibit Joint IOUs-03, but revised the numbers contained therein when they modified their fixed charge proposal.

Second, Table III-1 fails to show that there are other existing SDG&E rates (EV-TOU-5 and TOU-ELEC) that have larger POP rate differences – and lower off-peak rates – than TOU-DR1, especially in the winter months, as demonstrated in **Table 2** in Exhibit SEIA-03. As SEIA has emphasized repeatedly in this proceeding, the best means to incentivize electrification – far more effective than high IGFCs for residential default rates – is to move customers who adopt electrification measures onto the existing and available residential TOU rates with high POP rate differences and low off-peak rates.

Exh. SEIA-03, Table 2: *SDG&E Total Rates and POP Differences ($/kWh)*[140]

TOU Period	TOU-DR1		TOU-ELEC		EV-TOU-5	
	Total Rate	POP Difference	Total Rate	POP Difference	Total Rate	POP Difference
Summer On-Peak	0.83325	-	0.74326	-	0.81629	-
Summer Off-Peak	0.51979	**0.31**	0.37402	**0.37**	0.48129	**0.34**
Summer Super Off-Peak	0.35515	**0.48**	0.32543	**0.42**	0.15351	**0.66**
Winter On-Peak	0.63646	-	0.50218	-	0.51149	-
Winter Off-Peak	0.55194	**0.08**	0.36081	**0.14**	0.44775	**0.06**
Winter Super Off-Peak	0.52741	**0.11**	0.31663	**0.19**	0.14520	**0.37**

While the parties advocating high fixed charges advance the proposition that significant reductions in volumetric rates are critical to allowing electrification measures to be competitive with fossil fuels, this simply is not the case at present. Lower volumetric rates might be needed, for example, if off-peak electric rates for EV charging were not competitive in price with liquid fossil fuels such as gasoline and diesel, or if the use of electric heat pumps was more expensive than burning natural gas for space or water heating. However, this is not the case today. Current gasoline prices of approximately $6 per gallon in California are equivalent to electricity at about

140 Data from https://www.sdge.com/total-electric-rates.

$0.60 per kWh, which is above even SDG&E's average residential rates, and well above the off-peak rates that most EV customers use for home charging.[141] Thus, there is no pressing need for a major reduction in average residential volumetric rates to provide fuel cost savings for EV owners.[142] In another proceeding, PG&E has even proposed to raise its commercial EV charging rates because they are so far below the costs of competing fuels – a position which completely contradicts the position the utility has taken in this case.[143]

2. Arguments Against the Allocation of Fixed Charge Revenue to Off-Peak Rates are Not Supported

The reasons offered for not allocating most of the fixed charge revenue to reduce off-peak rates are incongruous. The Commission should ignore such arguments and use the opportunity before it to use fixed cost revenues to reduce off-peak volumetric rates in the residential default rate schedules. This will best advance grid reliability and the state's energy policy goals.

a. Some Costs Proposed by Parties to be Collected Through a Fixed Charge are Time Differentiated

The Joint IOUs argue that "none of the costs proposed to be collected through the IGFC are time-differentiated."[144] Therefore, according to the IOUs, if these costs are moved out of off-peak volumetric rates, shifting recovery of these costs into the peak period, customers using more energy during the peak period would be required to pay a higher share of costs that have

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141 See https://gasprices.aaa.com/?state=CA.

142 Exh. SEIA-02, p. 18, lines 5-11.

143 Specifically in its April 2023 *Business Electric Vehicle (BEV) Rate Annual Performance Report*. PG&E Reported that it anticipates raising its commercial EV rates from their current levels of $0.19 - $0.24/kWh and illustrated that its current commercial EV charging are very competitive with liquid fuels at costs equivalent to about $0.50 per kWh. See Exh. SEIA-02, p. 18, lines 11-19.

144 Exh. Joint IOUs-04, p. 13, lines 15-16.

nothing to do with how much they use during the peak period. [145] But the fact that the costs are currently not time-differentiated in rates does not mean that they should not be. The time differentiation of costs in today's "TOU-lite" residential default rates does not reflect how costs should be time differentiated if rates were fully cost-based. For example, all of the IOUs have recognized that the TOU rate differences in their current default rates are far below marginal costs and need to be increased and moved toward marginal costs in future rate cases, as discussed in the next section. The current electrification rates are much closer to cost-based in their time differentiation. Time differentiation more accurately reflects cost causation. The only category of costs that is unambiguously not dependent on time is marginal customer access costs, which is the basis for SEIA's proposed IGFCs.

It is particularly important to adjust the time-differentiation of delivery costs in response to fixed charge revenues because the parties generally are proposing that IGFCs consist entirely of delivery-related costs.[146] This point is illustrated through Table 1 below, initially presented in Exhibit SEIA-03.[147] Table 1 compares the time differentiation of the distribution costs in the IOUs' default rates and in their electrification rates (which are more cost-based and are more aggressively time-differentiated).

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[145] *Id.*

[146] *See* Exh. Joint IOU-03, p. 14, Table II-3 (summary of parties proposed cost categories for inclusion in default IGFC).

[147] Exh. SEIA-03, p .3.

Exh. SEIA-03 Table 1: *Distribution Component of Default and Electrification Rates ($/kWh)*

IOU	Type of Rate	Summer				Winter			
PG&E		Peak	Part Peak	Off Peak	POP Delta	Peak	Part Peak	Off Peak	POP Delta
E-ELEC	**ELEC**	**0.17315**	**0.11038**	**0.09880**	**0.063-0.074**	**0.10376**	**0.10164**	**0.10113**	**0.002-0.003**
E-TOU-C	**DF**	**0.16473**	**N/A**	**0.14473**	**0.020**	**0.11061**	**N/A**	**0.10729**	**0.003**
SCE		On-Peak	Mid-Peak	Off-Peak	POP Delta	Mid-Peak	Off-Peak	SOP	POP Delta
TOU-D-PRIME	**ELEC**	**0.17258**	**0.17258**	**0.09660**	**0.076**	**0.17822**	**0.08999**	**0.08999**	**0.088**
TOU-D-4-9	**DF**	**0.23405**	**0.23405**	**0.19067**	**0.043**	**0.23405**	**0.19067**	**0.17056**	**0.043-0.059**
SDG&E		On-Peak	Off-Peak	SOP	POP Delta	On-Peak	Off-Peak	SOP	POP Delta
TOU-ELEC	**ELEC**	**0.10796**	**0.10796**	**0.10796**	**0**	**0.10796**	**0.10796**	**0.10796**	**0**
TOU-DR1	**DF**	**0.15068**	**0.15068**	**0.15068**	**0**	**0.15068**	**0.15068**	**0.15068**	**0**

ELEC = electrification

DF = default

POP Delta = on-peak to off-peak rate difference

SOP = Super Off Peak

As shown in this table, SDG&E has no time-differentiation at all in the distribution costs in either its default rate (TOU-DR1) or its electrification rate (TOU-ELEC). The time differentiation of distribution costs in PG&E's default rate (E-TOU-C) in the peak summer season is small in comparison to its more cost-based electrification rate (E-ELEC). SCE has more significant time-differentiation of the distribution costs in its default rate (TOU-D 4p-9p) than do the other two IOUs, but still less differentiation than in its electrification rate (TOU-D-PRIME).

b. The Joint IOUs Are Not Adequately Addressing the Differentials Between On-Peak and Off-Peak Rates

Arguments that the Commission does not need to address the differential between on-peak and off-peak rates because the IOUs are already in the process of doing such, do not stand up to scrutiny. Specifically, the Joint IOUs argue that PG&E has already started to raise the TOU differentials in its default generation rates, in a settlement in its last GRC.[148] But that settlement is just taking small steps – increasing the peak-to-off-peak ("POP") rate differential in three small steps of 10% of the marginal cost POP differential each year for three years – thus requiring 10 years to reach a cost-based rate at that pace.[149] Moreover, they argue that SDG&E's generation (commodity) rates are "already cost-based." [150] If that is true, then clearly it is SDG&E's distribution rates, which have no time differentiation at all (see Table 1), which should be adjusted to increase the TOU differentials. The Joint IOUs also mention a 2.6-to-1 POP differential in SCE's TOU-D-PRIME rate, as though that is adequate. [151] But TOU-D-PRIME is not SCE's default rate, it is SCE's electrification rate. The IOUs simply are not making any real progress in increasing the TOU differentials in their default residential rates to move those rate differentials closer to marginal costs.

c. The Commission is Not Procedurally Barred from Making Changes to the Volumetric Rate Component

The Joint IOUs argue that anything but the use of the E3 tool to set volumetric rates is "beyond the scope of Track A of this Proceeding."[152] SEIA would submit that such is not the case given that the Scoping Memo clearly includes the issue of "How should residential rate components of investor-owned utilities' electric rates, including volumetric rates and the California Alternate Rates for Energy (CARE) discount methodology, be adjusted to reflect fixed charges in accordance with AB 205?" This issue did not limit the adjustments to volumetric

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[148] Exh. Joint IOUs-04, p. 13, line 22 to p.14, line 1.

[149] *See Motion of Pacific Gas and Electric Company for Adoption of Residential Rate Design Supplemental Settlement Agreement,* A. 19-11-019 (March 29, 2021), pp. 6-8.

[150] Exh. Joint-IOUs-04, p. 14, lines 1-2.

[151] *Id,* p. 14, lines. 2-4

[152] *Reply Comments of the Joint OIUs in Response to Administrative Law Judge's Ruling on Implementation Pathway for Income-Graduated Fixed Charges*, R. 22-07-005, (August 21, 2023) p. 7.

rates to the two provided in the E3 tool. However, even if that was the case SEIA is not arguing that the volumetric rates be set in this Track A Proceeding. Rather the correct adjustments to the volumetric rates should be made in the RDW applications filed after the Commission issues its Track A decision. This would allow for development of the record necessary to appropriately adjust the volumetric rates, as discussed in Section IV.A, below.

B. Adjustment of Average Effective CARE Discount to Reflect AB 205 Requirements

Under AB 205 the Commission is required to adjust the average effective discount for CARE so that it does not reflect any charges for which CARE customers are exempted, discounts to fixed charges or other rates paid by non-CARE customers, or bill savings resulting from participation in other programs. The E3 model which the Commission has relied upon in this proceeding has effected this requirement by using a method that first calculates a "base rate" that does not include the costs from which CARE customers are exempted. CARE rates are then calculated by applying the relevant CARE discount to this base rate. The standard rates for non-CARE customers are then determined by adding back the costs that were excluded from the base rate as well as the costs of the CARE discounts.[153] This approach appears to meet all the requirements of AB 205 and SEIA relied upon it in the calculation of its proposed fixed charges.

IV. TIMELINES AND PROCEDURAL PATHWAYS FOR DEVELOPING FIRST AND SECOND VERSIONS OF IGFCS (Question 4 from the August 22 Ruling)

A. First Version of IGFC

1. Rate Design Window Applications are Necessary for Implementing the First Version of the IGFC

The record of this proceeding is not sufficient to allow for implementation of the first version of the IGFC through advice letter filings. Each IOU should be directed to file a rate

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[153] Exh. SEIA-01, p. 25 lines 19-23.

design window application in which it sets forth its proposal to incorporate the adopted IGFCs into each of the residential rate schedules to which such charges are applicable.

In the June 19 Ruling the Commission set forth a pathway for the implementation of the first version of the IGFC. This pathway was premised on the last time the Commission approved a major structural change in residential rate structure – i.e., the introduction of default TOU rates. The Commission noted that the implementation of default TOU rates was the culmination of a five-year process starting in 2015 and ending in 2020. This process began with the issuance of Decision 15-07-001 which gave guidance for TOU rate design window applications, as well as providing for working groups and consultants to propose and evaluate marketing, education, and outreach plans, pilots, studies, progress reports, and workshops.[154] Noting the Commission's recent reaffirmation of the rate design principle that "[t]ransitions to new rate structures should (i) include customer education and outreach that enhances customer understanding and acceptance of new rates, and (ii) minimize or appropriately consider the bill impacts associated with such transitions,"[155] the Commission determined that a process comparable to that which was used to implement default TOU rates should be employed for the implementation of IGFCs.

The Joint IOUs disagree with the Commission's reasoned approach, asserting that a "RDW is not necessary" and the "first version IGFC can be implemented through the Advice Letter process." [156] Cal Advocates also supported the use of the Advice Letter process stating that "[a] separate RDW application is unnecessary for implementation as this proceeding will

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154 June 19 Ruling, pp. 2-3.

155 Decision 23-04-040, p. 22.

156 Exh. Joint IOUs-04, p. 8, lines 18-20.

have developed the necessary record on the design of IGFCs for all the utilities,"[157] while TURN and NRDC asserted that the Commission should forgo RDWs and rely on the Advice Letter process in order to "accelerate implementation."[158] SEIA assumes that it was the positions espoused by these parties that has led the Commission to re-evaluate the correct procedural course and query parties as to whether the Commission should "provide enough direction for the first IGFCs in the upcoming Track A decision for utilities to file advice letters to implement the first IGFCs rather than file rate design window applications."[159] The Commission got it right the first time – rate design window applications are necessary to implement the IGFC across all residential rate schedules to which it will be applicable.

The incorporation of an IGFC into each of the IOUs' residential rates to which such a charge applies is not just a matter of inserting the charge into the appropriate tariff sheets.[160] The existing portfolio of the IOUs' residential rate schedules is diverse. For example, some already have fixed charges, others still use an increasing block rate design, while others incorporate the TOU rate structure with varying degrees of differences between the rates in the established TOU periods. The incorporation of IGFCs into these varying rate schedules will differ and the details of how the IGFC will (or should) affect the other component parts of the rate – e.g., minimizing on-peak rate changes and lowering off-peak rates – will need to be vetted. As addressed above,

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157 *Comments of the Public Advocates Office on the Administrative Law Judge's Ruling on Implementation Pathway for Income-Graduated Fixed Charges*, R. 22-07-005, (July 21, 2023), p. 3.

158 *Comments Of The Natural Resources Defense Council And The Utility Reform Network On Administrative Law Judge's Ruling On The Implementation Pathway For Income-Graduated Fixed Charges,* R 22-07-005 (July 31, 2023), p. 46.

159 August 22 Ruling, p. 6.

160 Joint IOU Comments, p. 38 (asserting that "[i]f the Commission adopts specific costs to be included in the First Version (and possibly subsequent versions) of the IGFC, the IOUs could easily calculate the values for the First Version IGFC based on current effective rates at the time of the decision").

across the board reductions in the rates in all TOU periods is antithetical to grid reliability and will not provide the largest stimulus for electrification. The Commission must take the time to allocate appropriately the revenue received from the fixed charge to the volumetric rate components, or the ultimate result will not advance California's energy policy goals as reflected in AB 205.

Moreover, there are several complexities associated with altering the volumetric rates to reflect the revenue received from the IGFC. For example, as addressed above, the Joint IOUs maintain that if the Commission does not blindly apply the revenues to lower all volumetric rate components equally in all TOU periods, then any changes to the volumetric portion of the rate should focus solely on adjusting the TOU differentials in generation rates.[161] SEIA disagrees given that currently there is little time-differentiation in the IOUs' distribution charges in their default residential rates, despite the fact that a major category of distribution costs (marginal primary distribution costs) are time-dependent.[162] In addition, it is important for the Commission to be sure that off-peak rates are set at least to cover marginal costs, which vary among the three IOUs.[163] Finally, the proposals in this case would limit the IGFC mostly to delivery costs (i.e. to customer and distribution costs), so the IGFC revenues should be used to adjust delivery rates, not generation rates. As noted previously, the E3 Tool used in this case is only capable of two possible adjustments to existing volumetric rates – either an equal cents per kWh decrease or an equal percentage reduction across all TOU periods. The E3 tool does not check to see if all TOU rates exceed marginal costs, nor does it allow parties to adjust the existing volumetric rates in a

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161 Exh. Joint IOUs-04, p.13, lines 7-12.

162 Exh. SEIA-03, p. 3, lines 4-7.

163 Exh. SEIA-01, p. 17, lines 13-17 and Table 2.

manner that will best incentivize electrification. In short, this case does not have an adequate record to determine the optimal way to adjust all of the residential rate schedules that the IOUs currently offer. The Commission is simply unable to give the IOUs the direction necessary to make the appropriate adjustments to the wide variety of volumetric rates now used to serve residential customers.[164]

Finally, in undertaking the allocation of the fixed charge revenues and setting the appropriate TOU differentials, the Commission would need to consider that many residential customers have only recently transitioned to TOU rates, thus necessitating that increases to the TOU differentials happen in a measured fashion in order to minimize unexpected adverse bill impacts. It is difficult to comprehend, nor have the Joint IOUs (or any other party) explained, how such a consideration could be addressed through the advice letter process.

Unlike the Joint IOUs, Cal Advocates acknowledges that an analysis of the impact of the IGFCs on TOU rates must be undertaken but asserts that such can be delayed until each IOU's next GRC Phase 2. Specifically, Cal Advocates states:

> More detailed discussions concerning how to adjust off-peak rates more specifically (e.g., reduce the off-peak period only) are best addressed in each IOU's GRC2s. Marginal costs, load shapes, avoided costs, price differentials, bill impacts and cost shifting analyses are typically conducted in respective GRC2s. This proceeding should be limited to generalized discussions on how to reduce volumetric rates.[165]

But divorcing the implementation of the IGFC from necessary changes to other rate components makes no sense. Across the board reductions in volumetric rates would adversely

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164 Moreover, SEIA would highlight for the Commission, that while Joint IOUs have listed nine determinations which they assert the Commission must make to enable them to implement the IGFC through an Advice Letter process, none of those determinations address necessary changes to the varying TOU rates but appear to assume across the board rate reductions.

165 Cal Advocates Opening Comments, p. 7.

impact grid reliability; IGFCs must be implemented differently in order to minimize this harm. Asserting that bill impact analyses resulting from the adopted fixed charges should await a few years until each IOU has completed its next GRC Phase 2 is directly contrary to Rate Desing Principle No. 10 that "transitions to new rate structures should …minimize or appropriately consider the bill impacts associated with such transition."[166]

Lastly, in assessing the necessity of RDWs, the Commission must bear in mind that it previously determined that the Joint IOU's IGFC proposals in this proceeding are "not utility applications to change rates" but rather "are responses to a ruling designed to assist the Commission in the discharge of its statutory obligations."[167] It was on this basis alone that the Commission determined that the IOUs were not required to give customers notice of a rate change in accordance with P.U. Code 454(a). By requesting that the Commission forego RDW proceedings and use an Advice Letter process to implement the rate determinations made in this proceeding, the Joint IOUs would turn this proceeding into a rate application subject to the customer notice requirement.

2. The First Version of the IGFC Should be Implemented Concurrently Across all Three IOUs' Service Territories

The Ruling queries when the advice letters implementing the IGFC should be filed. This is not the question that the Commission should be asking. As addressed above, the advice letter process is inadequate for implementing IGFCs, this must be done through individual IOU RDW applications.

The Joint IOUs have attested that they could make such RDW applications by the end Q1

166 Decision 23-04-040, p. 3.

167 *Administrative Law Judge's Ruling Denying Motion to Dismiss*, R.22-07-005 (Aug.2, 2023), p. 3.

2025. [168] This time frame is consistent with what was estimated by the Commission in its June 19 Ruling. SEIA believes that this time frame is reasonable and could readily result in an implementation of the new fixed charges by the end of 2026, as contemplated by the Commission. That said, SEIA believes that the implementation of the IGFC – which has been demonstrated on the record to be controversial – should occur at approximately the same time across the service territories of the three major IOUs. The Joint IOUs have attested that they anticipate that:

> [T]he First Version IGFC could be implemented between 12 and 36 months (varying by utility) after the Commission issues its Final Decision in this proceeding. PG&E has more complex implementation issues, including a major billing system upgrade and self-stated income collection for CARE participants for the First Version IGFC, pushing implementation for PG&E later than SCE and SDG&E.[169]

If PG&E is unable to implement the fixed charge until the second quarter of 2027 (based on the stated 36 month timeline), the other IOUs should use the same time schedule.

B. Second Version of the IGFC

1. The Commission Should Not Predetermine Any Outcomes for the Second Version of the IGFC

The June 19 Ruling contemplates a second version of the IGFC to be implemented at an undefined date in the future. The August 22 Ruling also refers to a second version of the IGFC. Thus, the Commission has queried parties as to whether it should authorize a working group, including the hiring of a third party consultant, to develop a proposal for income verification and tiers for the second version, as well as asking parties about the timing of when the Commission should consider the design of the second version of IGFCs.[170] The Commission should not make

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[168] Joint IOUs Opening Comments, pp. 65-66.

[169] Exh. Joint IOUs-04, p.10, lines 8-12.

[170] August 22 Ruling, p. 6

any determinations in its initial Track A decision which predetermines future outcomes. Rather it should make the determinations necessary in order for the IOUs to implement the first version of the IGFC through ordered RDW applications, then wait until sufficient data is collected on the implementation and performance of the first version (see discussion in Section V., below), as well as on the impact of the other rate design changes that the Commission may make in this proceeding.

The fact is that this rulemaking has many objectives, including making electric bills more affordable, enabling widespread electrification, encouraging demand flexibility, and reducing long-term system costs through more efficient pricing of electricity. Commencing the rulemaking with the approval of an IGFC was not a result of a determination that a fixed charge was the best or most expedient means to achieve the rulemaking's goals, but rather it was due to the statutory mandate to approve such a charge by July 2024. But as SEIA highlighted in its testimony in this proceeding,[171] there are many rate design tools – in addition to and perhaps better than fixed charges – available to meet the goals of this rulemaking, including promoting electrification. These include rate design changes that enhance the effectiveness of TOU pricing and that respond dynamically to system conditions. Subsequent phases of this rulemaking are scheduled to address these further rate design innovations that can enhance demand flexibility, and perhaps avoid the need for higher fixed charges. Indeed, the Commission is currently investigating the expansion of existing dynamic rate pilots and the associated evaluation requirements.[172]

Moreover, as acknowledged in the Scoping Memo for this proceeding, the Commission's

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[171] Exh. SEIA-02, pp.20-21.

[172] *Administrative Law Judge's Ruling on Track B Staff Proposal to Expand Existing Pilots*, R. 22-07-005 (August 15, 2023)

support of "the implementation of the California Energy Commission's [CEC's] amendments to the Load Management Standards will include directions for large investor-owned utilities to file applications by January 2025 to offer demand flexibility rates to each customer class."[173] These rates will be required to charge hourly rates based on locational marginal prices and greenhouse gas emissions. The IOUs will be under strict directives to educate customers about these time-dependent rates and any technologies—smart pool pumps, thermostats, water heaters or other devices—that they could use to best take advantage of the new dynamic rates. The CEC has determined that these changes will "help advance energy equity by introducing fairer compensation mechanisms, creating bill savings for customers with flat loads in disadvantaged communities or who are able to shift usage to when electricity is cheaper, and lowering energy costs for all customers by reducing peak electricity demand."[174] In sum, over the next few years the IOUs will be implementing a series of rate design changes which should support the objectives of this proceeding in a more robust manner than fixed charges.

Furthermore, having approved and implemented such innovative rate design changes, the Commission will need the opportunity to study their impacts on electric bill affordability, on the uptake of electric vehicles and appliances, and on system costs, among other things. It is only at that point that the Commission can make a reasoned determination as to whether a further increase in fixed charges and further income tiers are necessary or warranted. If the determination is made that the state of California should proceed with the second version of the IGFC, it is at that time that the Commission should authorize a working group, including the

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173 Scoping Memo, p. 2.

174 https://www.energy.ca.gov/news/2022-10/cec-adopts-standards-help-consumers-save-energy-peak-times

hiring of a third party consultant, to develop a proposal for income verification and tiers.

2. The Size of the Fixed Charge Should Not Vary Between the First and Second Versions

The Joint IOUs propose to change the fixed charge on an annual basis.[175] Specifically they propose that IGFC over- and under-collections should be trued up at least annually, with over-collections applied to reduce the next year's fixed charge revenue requirement, and under-collections applied to increase the subsequent year's fixed charge revenue requirement.[176] In support of this proposal the Joint IOUs offer two arguments. First, they assert that:

> Costs inevitably fluctuate year over [sic] year as the IOUs' revenue requirements change. For example, IOUs are authorized to update their rates on an annual basis to account for changes in base distribution revenue requirements as approved in the GRC Phase 1 and attrition year decisions, in their annual consolidated January 1 advice letters. Rate changes may also happen during the year, depending on the timing of decisions and requirements that the IOUs implement a decision on a certain timeline. T***he IGFC should be treated the same as current residential volumetric rate components, which change with revenue requirement changes.***[177]

But the problem with this logic is that volumetric rate components have always been viewed as being variable – these rates collect costs that vary with usage. A fixed charge is intended to have the opposite purpose – it is to be predetermined and reflect costs that do not vary with usage. Using routine changes in volumetric rates as support to apply comparable treatment to fixed charges simply does not make sense.

V. REPORTING REQUIREMENTS AND DIRECTIONS FOR DEVELOPING AN EVALUATION PLAN (Question 2 from August 22 Ruling)

SEIA submits the following reporting requirements necessary to fully evaluate the first version of the IGFC.

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175 Exh. Joint IOUs-03, pp. 99-100.

176 *Id.,* p.102, lines 18-21.

177 *Id.,* p. 99, lines 14-20 (emphasis added).

A. Reporting Metrics for the first IGFCs

The Commission and its third-party evaluator should collect a consistent set of data to evaluate each IOU's implementation of the IGFC and their customers' reactions to the new rate structure. The data should be sufficiently detailed to assess the impact of the rate design changes on households of different income levels and consumption bands across baseline territories. Such impacts could include:

- Changes in electricity bills;
- Changes in energy use (both amount and time-of-day);
- System benefits from the changes in energy use (based on current avoided costs);
- Impact on adoption of electrification measures and DERs, including investments in efficient electric household appliances, electric vehicles, whole-home electrification, rooftop solar, and storage;
- Distribution of customers across the IGFC tiers; and
- Customer compliance with IGFC income requirements.

A critical step in the evaluation process should be the collection of baseline data, *prior* to the implementation of the IGFC. It will be challenging to discern the impact of IGFCs in the increasing welter of other factors that also will be pushing customers to adopt electrification measures and DERs, including federal tax savings, direct state and local incentive programs, and cost savings. A reliable set of baseline data is essential in order to gauge customer interest in electrification and DER adoption without an IGFC, for comparison to customer activity after an IGFC is in place.

B. Frequency and Method of Report Distribution

To ensure that the collection of baseline, pre-IGFC data begins promptly, SEIA recommends the convening of a working group of stakeholders and the hiring of a third-party contractor/evaluator as soon as possible after the issuance of the early 2024 decision on an

IGFC in this Track A of R. 22-07-005. The Commission's Track A order should so provide. The working group and third-party contractor should submit a data collection and reporting plan to the Commission no later than the second quarter of 2024, with the plan covering both the pre- and post-IGFC data collection and reporting. The data collection should begin in 2024 as soon as the plan is approved.

C. Need for an Independent Evaluator for the First IGFCs

The adoption of an IGFC is a significant and controversial change to the current residential rate structure. SEIA does not expect the level of contention and concern to diminish if the Commission adopts a smaller and simpler IGFC, in particular if there is a chance for the IGFC to grow in size in the future. The IOUs have made clear their preference for large IGFCs. Given the position that the IOUs have staked out on these issues, the utilities cannot be the parties who are also evaluating the performance and merits of an IGFC. SEIA believes that the use of a Commission-hired, independent third-party evaluator is essential if future assessments of the merits of an IGFC are to be based on solid, objective data.

D. Questions to be Addressed in the Evaluation of the First IGFCs

The focus of this initial track of the OIR has been on the controversial IGFC, but the Commission cannot let such serve as a distraction from the other important rate design changes that will increase customers' demand flexibility and which will be addressed later in this OIR. Prior to making any changes to the first version of the IGFC, the Commission should complete the rest of this OIR, to develop other important rate design tools that can increase demand flexibility and encourage beneficial electrification. The evaluation of IGFCs should be coordinated with the evaluation of the other changes made by this OIR, including, for example, the dynamic rate pilots. The Commission should accumulate sufficient data to allow for a reasonable assessment of the efficacy of all of the changes made in this OIR, including the

IGFC, at achieving the OIR's goals, including increasing rate equity, incenting electrification, and encouraging demand flexibility.[178]

E. Implementation Period for the First Evaluation Report

To fairly gauge the various impacts of the IGFC and other rate design changes adopted in this rulemaking, a sufficient amount of time must elapse for customers to change their behavior in response to the price signals which the new rate structure will generate. In addition to the baseline, pre-IGFC data, SEIA recommends that, at a minimum, three years' worth of post-IGFC data be collected and analyzed prior to making any structural changes to the first version of the IFGC.

VI. CONCLUSION

The Commission is faced with a complex task. It must approve an IGFC for default residential rates by July 1, 2024. This IGFC must comply with **all** the requirements of P.U. Code Section 739.9. Moreover, the IGFC should be consistent with all of the Commission's Rate Design Principles. As illustrated above, SEIA's proposal stays within the statutory guardrails and is consonant with the Rate Design Principles. Proposals before the Commission advancing high fixed charges with significant reductions in volumetric rates in all TOU periods do neither. The Commission should adopt SEIA's IGFC proposal.

In addition, for the purpose of determining the volumetric rates for each of the IOUs' respective residential rate schedules, the Commission should order each IOU to file an RDW application. The record of this proceeding is not sufficient for the Commission to appropriately allocate the revenue received from the fixed charge to the volumetric rate components in a manner that will advance California's energy policy goals as reflected in AB 205. Nor have

[178] See R. 22-07-005, p. 1.

customers received the required notice that this proceeding is a "utility application to change rates."

Respectfully submitted the 6th day of October 2023 at San Francisco, California.

By: /s/
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